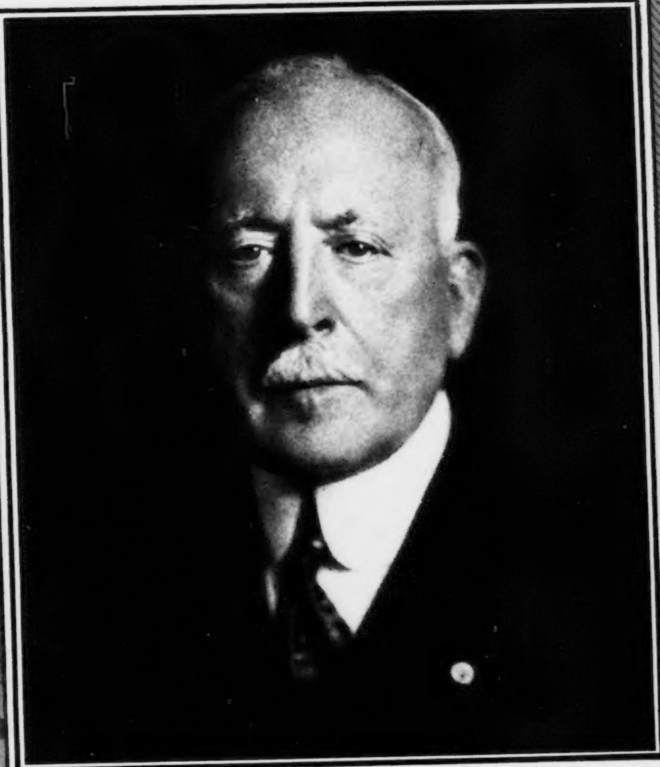
BANKING

JOURNAL OF THE AMERICAN BANKERS ASSOCIATION

Accelerate Progress



PAGE ONE

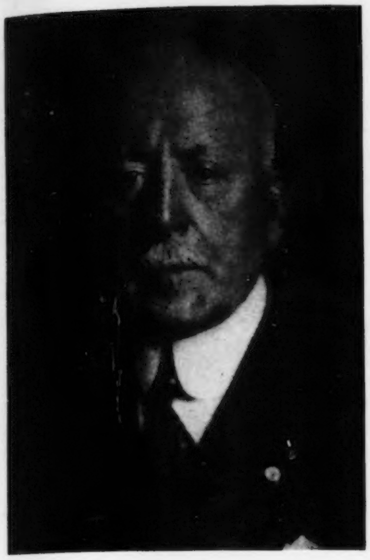
NOVEMBER 1936

The Real Estate Outlook

Foreign Exchange Armistice

Statement of Principles of Commercial Banking

PRINTED IN TWO SECTIONS. SECTION ONE



James A. Farrell

Accelerate Progress

THE Twenty-third National Foreign Trade Convention will be held at the Stevens Hotel, Chicago, on November 18, 19, 20.

The task before this convention will be that of surveying the progress made during the past year, with a view to the formulation of proposals that will tend to accelerate the rate of progress in world economic recovery and the re-establishment of world trade on a firm commercial and monetary basis.

The banking session, which meets on Wednesday, November 18, will be of especial interest in view of the closer approach to international accord on the question of currency stabilization and more general recognition of the necessity that exists for the removal of uneconomic restraints upon international trading. The program of this banking session has been carefully planned in cooperation with the Bankers' Association for Foreign Trade and should prove a most valuable contribution to international discussion of the means by which currency stabilization may most effectively serve the interests of all countries through an expansion of world commerce.—JAMES A. FARRELL, Chairman, National Foreign Trade Council.

PAGE ONE

Tax Revision

JESSE H. JONES, chairman of the Reconstruction Finance Corporation, said in a recent radio broadcast: "I sincerely hope Congress will review and modify in some respects the 1936 Revenue Act when it meets in January. Especially I would like to see an amendment to this act that would encourage expenditures for modernization of all character; for replacement of plant, machinery and equipment; for rebuilding; and one that would make some further provision for institutions laboring under debt. . . .

"Certainly, if business enterprises are permitted to accumulate reasonable reserves to carry them through periods of depression or slack business, and provisions are made that will enable those in debt to pay only normal taxes until they get out of debt, and there is a modification that will encourage and permit capital expenditures, the principle of taxing undistributed corporate net income is entitled to a fair trial."

Utility Taxes

C. E. GROESBECK, president of Electric Bond & Share Company, speaking at the stockholders' annual meeting, said that although the upward trend of operating revenues was most encouraging, the question of rising costs—notably taxes—was one of the factors to be considered in appraising the outlook for the utility industry. The tax burden on the subsidiaries of four domestic groups for the twelve months ending with August was more than $40,000,000, a 13 per cent increase over the preceding similar period.

"There will be additional taxes for 1937 under the Social Security Act," said Mr. Groesbeck, "and material increases in accounting costs due to a new classification of accounts prescribed by the Federal Power Commission. Added to these impositions is the serious and devastating competition of government-financed plants. Management cannot exercise control over these items of expense and they constitute a definite factor in retarding rate reductions."

A.B.A. AT BOSTON

The 63rd Annual Convention of the American Bankers Association will be held in Boston, October 11-14, 1937, with headquarters at the Statler Hotel.

Selection of the convention city follows the invitation extended by the Boston Clearinghouse Association to the A.B.A. members at their recent meeting in San Francisco. The last time the Convention met at Boston was in 1913.

52,000,000 Tires

P. W. LITCHFIELD, president of the Goodyear Tire & Rubber Company, reports that rubber tire production this year is expected to reach 52,000,000 units, the largest volume since 1930. The outlook for the rubber industry has been improved, not only by the growing market for tires, but also by the comparative stability of crude rubber prices and the absence of widespread price-cutting. A better balance between supply and demand for tires, Mr. Litchfield says, "should be reflected in improved earnings for the leading rubber manufacturing companies."

Business Regulation

RAYMOND MOLEY, editor of *Today:* "How much regulation by government can business stand under a democracy? The answer is 'a lot'. The answer, more fully, is: 'Business is going to have to be able to stand a lot, no matter who is elected, now or in the future, because it is going to get it.' The answer, still more fully, is: 'Business can stand regulation by government such as ours up to the point where the regulation ceases to help business serve the public better and begins to strangle business activity.'

"Business accepts regulation more or less cheerfully if the ultimate purpose is to promote and facilitate the growth of production, distribution and consumption. If, for example, regulation is imposed for the same general purpose for which traffic (CONTINUED ON PAGE 5)

BANKING

JOURNAL OF THE AMERICAN BANKERS ASSOCIATION

NOVEMBER 1936

CUSHING

FOREIGN SERVICE

A corner in India House, New York City, where are located the headquarters of the National Foreign Trade Council. The Council's annual convention will be in Chicago, November 18–20

INFORMATION about the financial and banking aspects of foreign trade is available from many sources. Following is a partial bibliography which may be found useful for reference purposes:

Handbook on Foreign Currencies, U. S. Department of Commerce, 1936; *The Problem of the Foreign Exchanges*, L. L. B. Angus (Knopf, 1935); *The Bank for International Settlements at Work*, Eleanor L. Dulles (Macmillan, 1932); *Financing Export Shipments*, F. R. Eldridge (Harper, 1930); *Exporting to the World*, A. A. Preciado (McCann, 1930); *The Foreign Expansion of American Banks*, Clyde William Phelps (Ronald Press, 1927); *International Trade Principles and Practices*, Paul V. Horn (Prentice-Hall, 1935); *Banking Principles and Practice*, Ray B. Westerfield (Ronald Press, 1928); *Bank Administration* (McGraw-Hill, 1931); *Export Advertising*, David L. Brown (Ronald Press, 1923); *Banking Theory and Practice*, Luther Harr and W. C. Harris (McGraw-Hill, 1930); *Bank Administration*, James B. Trant (McGraw-Hill, 1931); *Principles of Money, Credit and Banking*, Roy L. Garis (Macmillan, 1934).

Several of the volumes mentioned are textbooks on banking which cover the financing of foreign trade.

Volume XXIX No. 5

Published monthly by the American Bankers Association at 22 East 40th St., New York City. Fred N. Shepherd Editor and Publisher; William R. Kuhns, Managing Editor. Assistant Editors, William P. Bogie and John L. Cooley; L. E. Lascelle, Business Manager. Field representatives, Alden B. Baxter, Advertising Manager, Prentiss Jackson, Jr., and Richard F. Durham, 22 E. 40th St., New York City; Robert W. Kneebone, 230 N. Michigan Ave., Chicago, Ill.; R. J. Birch & Co., Los Angeles and San Francisco, Cal. Washington office, 708 Colorado Building. Subscriptions: $3 yearly; Canada, $3.36; foreign, $3.72; single copies, 25 cents. Entered as second-class matter May 5, 1909, at the Post Office at New York, N. Y., under the Act of March 3, 1879. Additional entry at Concord, N. H.

(CONTINUED FROM PAGE 1)

is regulated, in order to promote and increase the flow of activity, rather than to restrict it, regulation is beneficial and a spirit of cooperation grows up between those who regulate and those who are regulated. Anti-business sentiment cannot be met by the ganging up of business. That merely produces ganging up outside and results in the very class conflict that we all fear."

Help for Textiles

CLAUDIUS T. MURCHISON, president of the Cotton-Textile Institute and formerly head of the Bureau of Foreign and Domestic Commerce in the Department of Commerce, proposes the creation of an industry-wide corporation to act as a stabilizing agency in the marketing of textiles and to facilitate the orderly replacement of obsolescent equipment. He says: "It is my belief that the industry can establish what may be termed a stabilization corporation which will have the support and cooperation of mills and selling houses alike and whose business activities would not be competitive in character but designed to support the market and provide it with a steadying hand in appropriate places and at strategic times. Such an institution might also cooperate in the private efforts now being made to hasten the retirement of obsolete machinery by final liquidation and by holding in check the excessive operation of marginal machinery through the use of the well known leasing system."

Home Building

HAROLD T. DONALDSON, as chairman of the committee of the United States Building and Loan League on home building and home owning, said the consensus of leaders representing a careful cross-section of the nation is that home building will continue to go ahead, perhaps at the same general rate of improvement as has characterized 1936. The revival will make definite strides in those localities where shortages in housing are becoming the dominant factors in the situation and where simultaneously the earnings of salaried persons are increasing. "Only under such conditions is home building profitable enough to be undertaken at its present costs," Mr. Donaldson believes.

Building Costs

PHILIP W. KNISKERN, president of the First Mortgage Corporation of Philadelphia, calls upon manufacturers, material men, laborers and financial institutions to cooperate in holding new

building construction on a reasonable price level that will be within the ability of the public to pay.

"We, as leaders, are doing all we can to hold costs down," said Mr. Kniskern. "The time is rapidly approaching," he continued, "when a man will have to buy a home in order to obtain a place to live. . . . The present trend toward home ownership means that the small number of homes now available shortly will be wiped out."

Recovery Thinking

KENNETH COLLINS, vice-president of Gimbel Brothers, Inc., thinks the time has come for the big business executive to "roll up his sleeves and get down to the real business of retailing."

"The depression now belongs to the history text-books," Mr. Collins declared, "and a continuation of the depression type of thinking could only serve to so befuddle the leadership of American business that we won't be able to secure the full benefits of the better times we are now in."

An Advertising Job

WILLIAM A. THOMSON, director of the bureau of advertising, American Newspaper Publishers' Association, suggests institutional advertising campaigns by big business, banks, stock exchanges and insurance companies to offset the misconceptions the American public hold about these institutions.

Addressing a convention of the Massachusetts Cooperative Bank League, Mr. Thomson posed the question: "How shall we make an industrious people understand industry?" He blamed this lack of understanding on the unrest and dissatisfaction born of the war and the depression, agitation by many elements with many motives, and the failure of American business to interpret itself plainly to the public. "Business has sold its products, but has yet to sell itself to public understanding," he said.

Legislating Honesty

ELISHA WALKER, of Kuhn, Loeb and Company, gives it as his opinion that investment corporations should not be subjected to governmental regulation or restrictions greater than those applied to other types of corporations. He urges fullest publicity of investment trust managements and operations as the best guarantee of proper administration. "You cannot," says Mr. Walker, "legislate honesty. The crook is a crook and you cannot make him honest by trying to legislate honesty into him. You can put him into jail, but he is very likely to remain a crook. Proper publicity and honest management is really sufficient control."

A British Viewpoint

NEVILLE CHAMBERLAIN, Chancellor of the Exchequer of Great Britain, commenting at the annual bankers' dinner in London upon the three-power currency devaluation accord, said: "I have heard it suggested that the measures taken by various members of the gold bloc means we are about to enter upon a new era, a feature of which will be the permanent (CONTINUED ON PAGE 8)

NEUTRAL

King Leopold (below, at war games) has stated that Belgium is severing her alliances and returning to the neutral position she held before the World War. French writers considered their nation's prestige lessened by the event

WIDE WORLD

(CONTINUED FROM PAGE 6)

establishment of the managed currency.

"Well, I think it is very unlikely. I don't see any reason to alter the view I have expressed before that ultimately we will probably come back to an international monetary standard on the only basis which appears to give general confidence."

Canadian Taxes

CHARLES DUNNING, Finance Minister of the Dominion of Canada, frankly forecasts increased taxes in his budget of next Spring.

"Only by cutting expenses and calling for greater sacrifices by the taxpayers can the budget be balanced," says Mr. Dunning. . . . "You may as well face it. That means to take it out of you. If the country is to achieve solvency, it must regulate expenditures by income."

Legislation

What the next Congress will do in the way of legislation affecting business depends very largely upon the political and social bent of the members; but whether there is a material change in the personnel of the two houses, especially the lower one, it is plain some legislation will be attempted which may be of far reaching economic and financial effect.

It is fairly certain that there will be a reopening of the whole subject of social security by proposals to modify the present Act for the correction of minor weaknesses, whether or not the substantial issue of the present system is brought into the open. Some of the most ardent supporters of social security as a general national policy are commencing to be worried by the prospective size, nature and political control of the reserves needed under the system.

Other friendly critics believe the rates of taxation on which the system is based are too high, for the present at least. There is a marked trend of sentiment in some quarters in favor of doing away with the system of reserves and placing annual pension payments on the basis of annual appropriations covered by taxation instead of annual appropriations from a reserve fund. To this there are objections that this means the dole by another name. How far the members of Congress will care to dip into the subject at the coming session remains to be seen, but it is evident that the subject of social security is likely to be a perennial issue henceforth until years of experience have developed a satisfactory, workable system.

INTERNATIONAL

BANK WOMEN

Miss Anne Houstoun Sadler, assistant secretary of the Bank of the Manhattan Company, New York, is president of the Association of Bank Women

WIDE WORLD

INDUSTRIAL ADVERTISERS

William E. McFee of the American Rolling Mill Company, Middletown, Ohio, is president of the Industrial Advertisers Association

Chains

Meanwhile, some hangovers of the last Congress are in sight, among them a proposition of Representative Patman to prevent manufacturers from engaging in retail trade. The purpose of this legislation would be to close the loophole through which big distributors may be able to escape the restrictions of the present chain store act. Chain stores, in other words, may turn to the more general manufacture of goods they sell if they are unable to obtain discounts from manufacturers on their large scale orders, a practice many of them are already following in maintaining their own packing establishments, bakeries, chemical factories, novelty plants and what not.

On the other hand, the provisions of the present Robinson-Patman Act to regulate the chains are so obscure and confusing in many points that the whole subject may be reopened in a way to give consumers and others interested a chance to be heard in opposition to the whole idea of regulating such establishments—an opportunity which they did not have when this legislation was passed by the last Congress. Chain store regulation is another question which will be heard of frequently in the near future.

Home Owners' Lobby

The rapid rate of foreclosures in the H.O.L.C., however much justified by the conditions the corporation faces, will undoubtedly lead to all sorts of propositions in Congress for a modification of the present law. The most likely first attack will be upon the rate of 5 per cent interest charged its debtors by the corporation as against the rate of around 2.75 per cent which the corporation pays for its money. As a matter of fact the corporation will have difficulty in paying out even on the 5 per cent rate but a little thing like that is not likely to deter a member of Congress bent upon making himself solid with H.O.L.C. debtors among his constituents.

Perhaps a more serious threat is in the offing in a suggestion that the million nominal home owners who have borrowed from the corporation may organize a lobby on the order of the soldiers' bonus lobby and work not only for lower interest and indefinite moratoria on their debts but also for eventual writing down or writing off the debts. This country is by no means through with vociferous minorities in the passage of national legislation.

Capital Gains

Perhaps more to the liking of investors is the announcement by Senator King of Utah that he will propose at the next session of Congress that the tax on capital gains be repealed. The proposition, of course, is not to be made as a favor to speculators but as a means of ironing out the peaks and valleys in security prices and encouraging investors to sell securities which they are now holding, out of fear that the capital gains tax will wipe out most of their profits and by holding which they are forcing up prices to (CONTINUED ON PAGE 12)

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at point of use!

EVERY BANKER, of course, takes the usual precaution of safeguarding vital ledgers in the vault at night. But what about daytime risk? Now Remington Rand offers 2-hours, as well as 1-hour, certified protection against fire at point of use in an improved line of Safe-Ledger Trays. Combining all the convenient features of a posting tray, thorough, all-around insulation of this new model in no way interferes with posting or reference. Opens easily from front or back. As in the case of the 1-hour tray, the inner tray automatically drops down into the housing as the lid is closed, allowing the cover to overlap the outer wall construction . . . creating a watershed. Lock on top automatically snaps into place when cover is closed. Insert trays for both the 2-hour and 1-hour product offer much greater filing range than ever before . . . handling forms from 5″ to 21″ wide. Special sizes of insert trays can also be accommodated. Don't wait until irreplaceable records are gone forever. Get this protection now for depositors, savings, liability, trust, country bank and general ledgers and statements—or confidential file.

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Mail the coupon today for a new fully-illustrated book just off the press giving the complete story of Remington Rand's new Safe-Ledger Trays.

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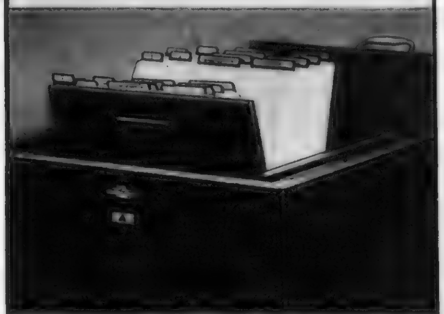
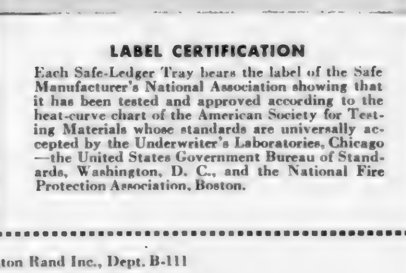


Insert trays for both the 2-hour and 1-hour product are of the latest design and give a greater filing range, handling forms from 5″ to 21″ wide. The insulated shell may be mounted on high leg bases to bring protection for records required for cage or counter use. Each model permits substitution of one to four trays for cards.

The follower block is at a fixed angle but can be easily adjusted to accommodate greater or lesser capacity. Two motions—two seconds—open tray for posting and reference; operator merely slides open cover and pulls front angle plate forward.



LABEL CERTIFICATION

Each Safe-Ledger Tray bears the label of the Safe Manufacturer's National Association showing that it has been tested and approved according to the heat-curve chart of the American Society for Testing Materials whose standards are universally accepted by the Underwriter's Laboratories, Chicago—the United States Government Bureau of Standards, Washington, D. C., and the National Fire Protection Association, Boston.

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(CONTINUED FROM PAGE 9)

an unhealthy level. By wiping out the tax on capital gains and doing away with tax credits for capital losses there are other benefits to be gained among which is the fact that at times the Treasury would benefit by the change. The whole proposition, however, has to do with the subject of taxation which in itself will be a major issue in the next Congress.

Railway Advertising

It now appears that the individual railways and the Association of American Railways will spend about $12,000,000 this year for advertising which is an increase of approximately one-third over similar expenditures last year. The inauguration of the two cent fare is largely responsible for the increase since the railways have been compelled to tell their story to the public if they expected to reap the benefits of the fare decrease which the I.C.C. envisioned for them. Moreover, several roads have special attractions to offer—air conditioned, stream-lined fast trains and all the latest conveniences and luxuries which the traveling public could demand. Perhaps a more controlling reason lies in the fact that the western roads which made comparatively heavy advertising outlays last year found that it paid. All of which tends to improve the prices and stability of railway securities.

(CONTINUED ON PAGE 14)

LIFE UNDERWRITERS

Alexander E. Patterson, second vice-president of the Chicago Penn Mutual Life Insurance Company, was nominated for the presidency of the National Association of Life Underwriters at the organization's annual convention

PICTURES

THE CHASE NATIONAL BANK

OF THE CITY OF NEW YORK

Statement of Condition, September 30, 1936

RESOURCES

Cash and Due from Banks		$ 761,871,603.45
U. S. Government Obligations, direct and fully guaranteed		765,601,423.48
State and Municipal Securities		92,284,190.54
Other Bonds and Securities		182,358,460.75
Loans, Discounts and Bankers' Acceptances		661,968,786.91
Banking Houses		37,796,134.61
Other Real Estate		4,184,996.72
Mortgages		9,310,861.59
Customers' Acceptance Liability		14,835,804.61
Other Assets		38,218,048.83
		$2,568,430,311.49

LIABILITIES

Capital Funds:		
Common Stock	$100,270,000.00	
Surplus	100,270,000.00	
Undivided Profits	20,963,373.00	
		$ 221,503,373.00
Reserve for Contingencies		12,544,319.82
Reserve for Taxes, Interest, etc.		1,060,559.34
Deposits		2,290,888,855.27
Acceptances Outstanding		16,825,585.31
Liability as Endorser on Acceptances and Foreign Bills		6,981,785.49
Other Liabilities		18,625,833.26
		$2,568,430,311.49

United States Government and other securities carried at $97,141,921.44 are pledged to secure public and trust deposits and for other purposes as required or permitted by law.

Member Federal Deposit Insurance Corporation

(CONTINUED FROM PAGE 12)

Stream-Lined

Two more western railways are arranging to put into service new stream-lined trains of the latest model as soon as the equipment can be turned out of the shops. Incidental to these efforts of the roads to capture new business it appears that some important modification of their accounting rules will follow. The writing down rate of the value of these trains is to be placed at 8.25 per cent, amortizing the whole in twelve years as compared with the twenty years or more heretofore allowed for the charge off on trains of older models. The idea is that these new means of locomotion are experimental and may become obsolete quickly. Looking at the matter from another viewpoint it would appear that the introduction of these modern late model trains is in fact rendering obsolete all other railway passenger equipment.

Baby Bonds

Treasury officials expect the volume of United States savings obligations, otherwise known as "baby bonds", to reach the half billion mark by the end of the year, pointing to the increasing monthly take off as a promise that such a volume will be reached. In June the amount of such bonds sold had a face value of $26,754,582, the soldiers' bonus payments being given credit for some of the business. In July the amount sold was $23,420,790; in August, $25,991,026; and in September, $33,945,842, to a total outstanding of $399,482,472. Considering the long pull to reach this volume, however, an observer can but wonder whether the same amount of energy and printer's ink devoted to the sale of straight coupon or registered securities bearing a fair rate of interest would not have been more successful.

R.F.C. Liquidation

Jesse Jones indicates that important curtailment of the activities of the R.F.C. is in sight. He thinks some agency of the Government must be retained to make loans on commodities, on mortgages, and to the railways for the purpose of keeping down interest rates, but seems to think that this will be about the limit of R.F.C. loans in the future. February 1 marks the limit of the corporation's lending power but a lot can happen between now and next February. Nevertheless, Mr. Jones is doubtless right about the future of the Corporation. It has served its greatest period of usefulness but its service has been of tremendous importance.

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The Real Estate Outlook

INCREASED mortgage lending, a housing shortage, rising rents, higher farm values and, in general, a more active market for buildings and land are reported by a majority of the bank realty officers whose opinions on the real estate outlook were requested by BANKING in a survey conducted in key cities throughout the country.

Some of the replies said that prospects locally continued unfavorable, high taxes and the burden of old property being mentioned as deterrents to recovery. But on the whole, the views of the men who are responsible for their banks' real estate holdings were optimistic.

Geographically, the replies indicated that improvement and promises of further gain are especially marked in the eastern North-Central states where the pickup is closely related to increased industrial activity and better business conditions. In parts of New England and along the Atlantic Coast improvement has been held back by the drag of older realty in congested districts and by high costs of remodeling and reconditioning. In the central states all classes of property are moving more freely. In the West the gain has been more moderate. Home construction in most parts of the East and South Atlantic area is especially active.

Farm values are increasing in response to the better demand for farms and higher returns from agricultural products.

Prices on all classes of real estate are rising, although most activity is on a moderate price basis in which cheap financing is an important factor.

THE TAX OBSTACLE

HIGH taxes are regarded as an obstacle, although from two states came reports of prospects that efforts toward some modification of tax laws would be successful.

The general opinion seems to be that the cost of building materials is not likely to advance much further, although higher labor costs are anticipated.

In virtually all parts of the country a shortage in housing is reported, the lack of homes in some districts being acute. Because of a dearth of rentable property people are forced to buy or build, and there is considerable preference for the latter alternative. The tendency is toward residential construction in suburbs, or at least out of the high-priced congested sections. Small, low cost homes are in strongest demand.

Old homes on high priced land, especially buildings of the more pretentious class which are usually in poor condition and require expensive remodeling, are the chief drawback on the residential market.

Rents are advancing in most areas. Many banks report fair incomes from properties they are holding for better prices, but in some localities the demand for new property is retarding the adjustment of rentals to actual conditions. Banks are beginning to realize upon property held and are making new loans more freely, both for new construction and for the purchase of old property, particularly low priced homes.

On the whole, the improved real estate outlook seems to be based on the marked demand for houses, cheaper and easier financing, increased and more permanent employment, and a better general economic outlook.

HOUSING STANDARDS

OPINIONS indicate that a housing shortage is felt more and more acutely as communities increase their industrial and commercial activity. In other words, what may be acceptable, because of necessity, when business is poor becomes unacceptable when business improves. Housing thus is largely a matter of standards which are established on the basis of the current employment, wages, and the general economic situation in each community. As business conditions improve there is not only a demand for more housing but also for better housing.

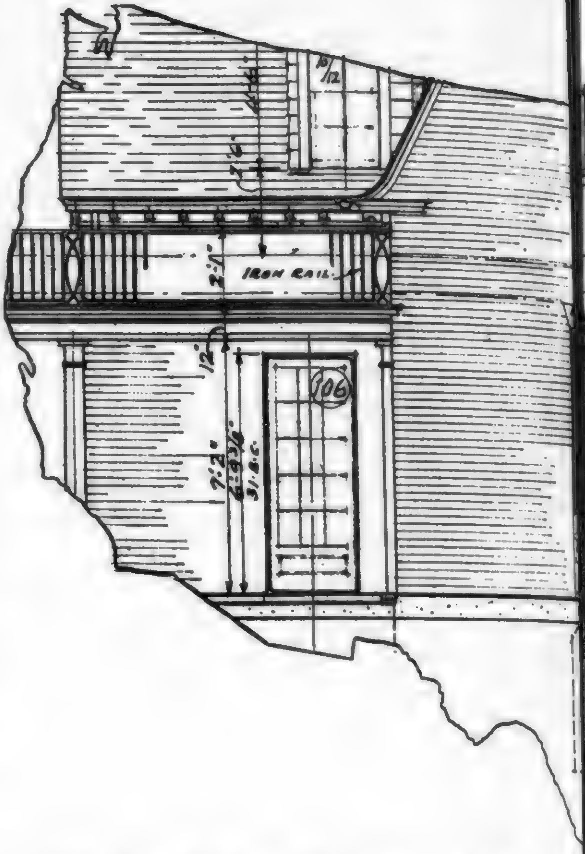
In Boston and the New England coast cities, local factors due to relics of the past contribute one of the few gloomy outlooks for real estate. Boston has two classes of residential real estate which are a drag upon the market: one, the very fine old houses of the wealthy and the other the habitations of the poor. The former are too large for modern families, especially when considered in connection with the servant problem. Most of them also need remodeling. Between original cost and the cost of remodeling, figures run too high for the properties to be moved. Old families with reduced income also can neither support nor realize upon their property. Above all, are high taxes. Hence there is a vast amount of property on the market.

On the other hand the large blocks of tenements and small houses which were built to house immigrants in the coast cities are also largely unproductive. There are no more immigrants and the second and third generations of the people who once inhabited these places will no longer live in them.

The market for city warehouses also is static. New

Demand for small homes . . .

IN a general way the opinions of the banks support the contention of Government housing authorities with respect to a lack of suitable homes for the people, but this is modified by the fact that in most cities, especially the larger communities, there is an enormous amount of distressed property on the market which is decreasing slowly if at all, most of it being of a comparatively expensive and outmoded type. So long as such property is on the market it is difficult to advance prices to a level which will warrant construction of the better type of homes. On the other hand the demand for small homes is brisk over practically all of the country reviewed and the demand is growing. It directly reflects increasing local prosperity.



England manufacturers nowadays ship direct to the retailer and do not need so many warehouses. In the outlying districts of the larger coast cities there is good and improving demand for homes and retail stores. Real estate in most suburban districts is on the up grade. In the interior cities of New England the outlook is considered better. In Worcester, Massachusetts, for example, properties for the most part are now paying a fair return on the investment. October 1 saw an increase in apartment rents of about 10 per cent and an increase in the number of apartments rented with a lively demand for more. There is an acute demand for small houses. Property values in the city have been held to a fair level during the depression and there is not much slack to take up. Present business is good and the banking people feel that it will be permanent.

Hartford, Connecticut, reports similar conditions with a shortage of houses, rentals going up, new homes building and a fair movement of older property—in short, "real estate looks bright".

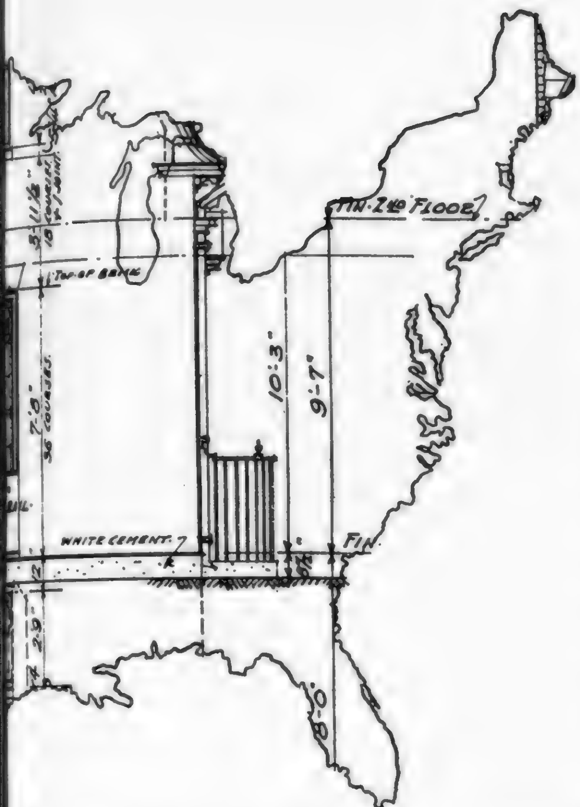
In the central Atlantic states the tide seems to be turning, although so far the turn has not been very definite. The report from Philadelphia indicates a slight increase in rentals and returns of deeds recorded indicate an increase in sales; but apparently there has been little improvement in prices and bankers are not disposed to hazard an opinion as to the immediate future.

In Pittsburgh and Allegheny County the report is clearer. The present condition of the real estate market is good and it looks much better for the coming year. Banks have been lending more money on real property than at any time since the beginning of the depression.

In the nation's capital the demand for modern small residences is especially good. Old property in what were formerly fashionable localities moves slowly and usually only at bargain prices. There is a strong demand for modern office accommodations on a rental basis as a result of expanding activities of the Government. Bankers are doubtful, however, whether this indicates possibilities of new business building construction, since many of the Government agencies are temporary and the Government itself is now building extensive new quarters. The population of Washington is increasing rapidly aside from Government personnel and the demand for homes is especially brisk.

In Virginia and the Carolinas demand for small modern homes is rapidly increasing, practically all of the larger cities reporting rapid new developments in the suburbs. Richmond has a problem in large, fine, old residences which the owners no longer can or are willing to support, preferring smaller and more modern homes. This situation renders it difficult to move old property and high costs make it difficult to convert or adapt it to modern uses but, on the other hand, stimulates new construction, especially in the suburbs. In northern Florida several cities report small booms in home building while in the larger cities suburban development is growing rapidly. Outside of the former boom cities prices are advancing.

In Alabama and Tennessee the situation is very promising. Bankers in Birmingham are highly encouraged at the outlook, anticipating steady advances in real estate prices as a result of the shortage of homes and apartments all over the surrounding area. The situation is aided by business developments, huge consolidations and improvements now being made by the great steel companies, coal mining showing considerable improvement while the Federal, state and local



Farm Values

THERE is optimism among bankers in agricultural areas with respect to farm values, especially in those districts where farm mortgage troubles have been so common. Memphis reports an actual shortage of farms to meet demand with banks now practically free from such property. Birmingham reports improved values and increased demand for farms in a territory which reaches into the Carolinas and Florida. Kansas City and Des Moines make similar reports. These reports are in line with the experience of the Federal Land banks which disposed of 7,535 whole farms and 1,169 part farms in the first eight months of the current year as compared with 4,855 whole farms and 747 part farms in the same period of 1935.

governments are engaged in vast permanent improvements and construction involving the employment of thousands of men. The farm, dairying and trucking interests in the vicinity also are prospering, all of which has resulted in a demand for homes and business property, particularly the former. With the housing shortage, advancing rents and generally prosperous conditions the banks are highly optimistic.

In Tennessee opinions also are optimistic. "The outlook for real estate values in the Memphis area," reports a banker, "is bullish. Regardless of the outcome of the election the outlook will still be bullish. Underlying business conditions warrant such a prediction." Memphis bankers, in fact, expect to dispose of all their distressed property in that area within two years. Similar reports, not quite so enthusiastic, come from Nashville. Demand for farm property in both Tennessee and Alabama is good.

Moving farther North, the effect of prosperity in the automobile and kindred industries is felt. In Detroit real estate values are going up and "will continue to go up." One reason for the increase is the current and prospective rise in the cost of construction, especially the labor element. The basis of the present demand for property is an acute housing shortage. Rentable property is lacking in the city and suburbs and many people are forced to buy or build.

In Cleveland there is a similar situation where people seeking rentable homes simply cannot find them and must buy or build. One result of this situation is an increase in sales of property to the semi-speculator class of investor who either sells at a profit or holds for current income which is satisfactory. A feature of the situation in Cleveland is an increase in the demand for homes valued at $10,000 or more. Most cities report such properties as hard to move.

In Minneapolis the current year has witnessed more sales and increased rentals than in any recent year, with still brighter prospects ahead. The increase in sales has been due largely to lower price ranges and lower interest rates coupled with an improved demand for property but the future outlook depends very largely upon the question of taxes, which is acute in Minnesota as well as upon a better system of financing. The trend is indicated by the fact that residential building in Minneapolis so far this year is up 45 per cent over the same period last year. In spite of this increase the housing shortage is still rather acute, there are few houses for rent and almost no apartments are available. As elsewhere, people are turning to building or buying.

Evanston, Illinois, reports Chicago suburban conditions as decidedly on the up grade. There are no longer any bargains on the market. Many new homes are under construction to relieve the housing shortage, it is difficult and in many cases impossible to secure apartments at a reasonable figure; even the hotels are crowded. Prices for the most part are still reasonable. Apartment house construction is demanded by the situation but until there is a fairer adjustment of probable rentals to the present high costs of apartment house construction the situation is not considered ripe. The current real estate situation is indicated by the fact that the value of construction of all types in the first nine months of 1936 is $1,673,050 as compared with $947,750 for the whole of 1935.

Des Moines, Iowa, also reports rising values with prospects of further improvement. Shortage of housing has led to the construction of new homes with a very fair clearance of older houses. Population is increasing and people are becoming more real estate minded. (CONTINUED ON PAGE 60)

The Foreign Exchange Armistice

By NORMAN CRUMP

Banking Editor, *The Economist*, London

Le franc est mort. Vive le franc! When in the early morning of September 26 the news came through that the British, French and American Governments had agreed on measures of cooperation to facilitate the orderly depreciation of the franc, the world heaved a sigh of relief. At last one major cause of disequilibrium was to be removed. The franc and the allied gold bloc currencies would cease to be overvalued, and the gold bloc countries would be relieved from the grinding task of seeking to depress their internal prices and costs so as to bring them down to the level ruling throughout the major part of the world. Trade would be free to revive and the main cause of social discontent in those countries would be removed. In the opinion of all, a big step forward had been taken toward world prosperity and peace.

Since then events have been moving fast. The French franc has been devalued from 65½ to between 49 and 43 milligrams of gold per franc—that is, by between 26 and 35.2 per cent. The Swiss franc has been devalued by an amount lying within legal limits of 26 and 34.5 per cent. Holland has prohibited the export of gold, and the guilder is now riding free like the pound. Czechoslovakia is devaluing by 16 per cent. Greece, Turkey and Latvia have joined the sterling area. New exchange dealings have begun, and France and Holland have followed the example of Great Britain and the United States, and have set up special exchange stabilization funds.

These are the actual material changes to the date of writing. The psychological changes are no less important. First and foremost these acts of devaluation have been achieved, for the first time in post-war history, by international cooperation. By way of contrast, Great Britain acted unilaterally when she went back to gold in 1925 and when she came off gold in 1931. France acted unilaterally when she revalued the franc in 1928. The United States acted unilaterally when she went off gold in 1933 and revalued the dollar in 1934. On each occasion the isolated attempt to cure an existing economic disequilibrium only ended in the creation of a new disequilibrium. Today, on the other hand, international cooperation seems likely to create for the first time a closer degree of economic equilibrium than has existed since the war. At the same time, the three great democracies of the world have shown that they can act together swiftly, decisively and for the good of the whole world. This lesson will not be lost on those who have come to think that decision and leadership have become the attributes of a dictatorship.

In the August issue of BANKING I hazarded the view that to restore international equilibrium of prices and costs, exchange rates round the pound-dollar-franc triangle should stand at £1 = $4.80 = Frs. 100; and $1 = Frs. 20.83. I recognized then that after M. Blum's new deal had taken effect, a better rate might be £1 = Frs. 105, and I have since come to realize that a minimum pound-dollar rate of $4.866 might be more acceptable to American public opinion. If so, I should earnestly counsel British public opinion to agree.

To crystallize the question of exchange relations I have prepared the table below.

	MY ESTIMATE OF LAST JUNE	RATES ACTUALLY CURRENT JUNE	RATES ACTUALLY CURRENT SEPTEMBER	MY ESTIMATE OF TODAY	RATES CURRENT TODAY
£1 equals	$4.80	$5.02	$5.06½	$4.866	$4.93
£1 equals	Frs. 100	Frs. 76⅛	Frs. 77	Frs. 109	Frs. 105⅝
$1 equals	Frs. 20.83	Frs. 15.19	Frs. 15.19	Frs. 22.50	Frs. 21.42

A comparison of the actual rates current today with, first, my two estimates of where the rates should stand to give approximate equilibrium, and, second, with the rates current in the recent past shows that we have progressed a very long way towards the restoration of equilibrium. In fact I am prepared to say that none of the three currencies is today seriously undervalued or overvalued in terms of the other two currencies. For the first time since the war the triangle has a stable basis. This is the first and immediate gain.

It is also important to notice that, thanks to the measures of cooperation, France has done no more than realign her currency to take account of the depreciation of the pound and dollar in terms of gold; while Great Britain and the United States have retained their monetary freedom.

So far so good, but there are numerous important problems to be solved. First of all the three countries have given a pledge against the competitive depreciation of their currencies. This pledge must be implemented. This does not mean that there will be no fluctuations in exchange rates, or in the London and Paris price of gold. On the contrary, we must be prepared for an initial period of trial and error, and some fluctuations in exchange rates during the next few months are inevitable and even desirable. On the other hand, these fluctuations must be kept within bounds. This is the task of the British and American exchange stabilization funds, acting in cooperation with the newly-created exchange funds of France and Holland.

Thus it is necessary to evolve and concert the proper technique for the operation of these funds. First and foremost they must have full power to transfer gold from one to the other. The United States Treasury must no longer limit gold shipments so that they can only be made to the central banks of gold standard countries (of which there are practically none now in existence). Instead, it must permit trans-

PRINCIPAL STABILIZATION FUNDS

SECRECY is the very essence of successful stabilization fund management, and little more than what is set aside for a fund at its start is ever revealed. The following are the important funds of the world today:

COUNTRY	FUND	DATE ESTABLISHED	ORIGINAL PRINCIPAL ASSET
United States	$2,000,000,000	1934	Gold
Great Britain £=$5	1,875,000,000	1932	Sterling
France (Fr.=$.0496)	496,000,000	1936	Gold and francs
Holland (Guilder=$.53)	159,000,000	1936	Guilders
Switzerland (Fr.=$.23)	149,000,000	1936	Gold and francs

THERE is little new in the idea of stabilization funds, into which nearly $5,000,000,000, the profits of currency debasement, have been paid. G. F. Knapp in his *State Theory of Money*, described a Russian stabilization fund which existed in pre-War days and which had assets in German marks. Most of the world's currencies today are the shrunken relics of what they were once. Ancient rulers devalued in cruder fashion than is the practice today—they sweated, clipped or reminted coin—making two currency units where one previously existed. Both ancient and modern devaluation methods are symptoms of a form of bankruptcy. National bankruptcy actual or theoretical differs from commercial in that, in the case of the former, assets are written up, while in the case of the latter liabilities are written down.

The above table does not include figures for exchange funds of countries which have not revealed resources paid into them. Among such organizations is the exchange fund of the Hong Kong Government and the Italian Institute of Exchange, established in 1932.

fers, either actual shipments or under earmark, to all properly constituted exchange funds. Holland, France and Switzerland must similarly relax their restrictions upon gold movements. It must also be recognized in Europe that the price of gold is now determined by the value of the dollar in European currencies, for the only fixed price now is the American price of $35 per ounce. Hence European authorities must be prepared to fix the price in their own currency by reference to the American exchange.

The actual technique of exchange funds is also not so easy as it sounds, for they have been created in different ways and exercise a different impact upon the internal credit situation of the countries concerned. The real difference is that the American and French funds have been created out of the profits of gold revaluation. The British and Dutch funds have been created by short term borrowing from the money market and the commercial banks. Thus gold operations by the last two funds have an effect totally different from those of the American and French funds.

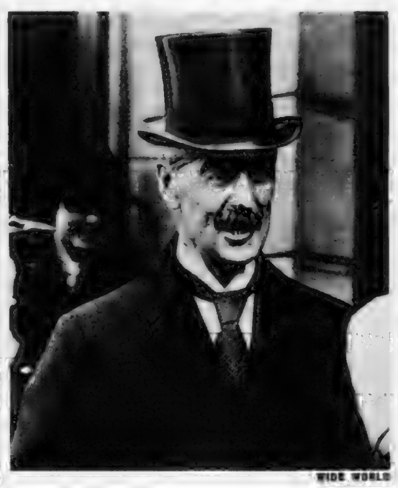
To explain this, let me analyze the operations of the British exchange fund. Assume that French funds are withdrawn from the British banks and repatriated. To cover the movement the British exchange fund sells gold to the French exchange fund. Then the British fund will receive, in payment for its gold, the sterling sold by the Frenchman who is repatriating his money from London; and it will at once use that sterling to redeem Treasury bills held by the British commercial banks. Therefore the reduction in British bank deposits (due to the French withdrawals) will be offset by a reduction in their "Governments" (due to the redemption of some of their Treasury bills). Their cash will be unaltered, but as their deposits and earning assets are reduced, their ratio of cash to deposits will rise. This will turn them into a *buyer* of "Governments" and so will weaken interest and discount rates and create easier conditions. It is a serious paradox that an outflow of funds should *strengthen* the cash position of the banks.

So far as I can judge here, the complete reverse obtains in the United States. If foreign funds are withdrawn to the extent of causing an outflow of gold, then the gold loss will fall initially on the Reserve System, and will *weaken* the cash position of the member banks. Even if the American stabilization fund uses some of its gold to replenish the

The United States' Secretary of the Treasury, Henry Morgenthau, Jr.

HARRIS & EWING

Great Britain's Chancellor of the Exchequer, Neville Chamberlain



WIDE WORLD

France's Minister of Finance, Vincent Auriol

PICTURES

Dr. Hjalmar H. G. Schacht, Minister of Economic Affairs of the Reich

Italy's Minister of Finance, Count Thaon Di Revel

Henri de Man, Minister of Finance of Belgium

Reserve System's losses, I cannot see how that action by itself will replenish the cash reserves of the member banks. Further action—possibly open-market operations by the reserve banks—would appear to be called for, but, as I say, I cannot write with certainty.

Still I am under no doubt that these differences of technique between the four countries will have to be reconciled, or else the joint operations of two or more exchange funds, designed to cover international movements of funds, may result in either a net expansion or contraction of the aggregate volume of bank credit in the four countries. This would in time create a fresh economic, monetary and price disequilibrium.

CORRECT POINT OF IMPACT

THE proper technique for all countries is that the impact of gold movements due to international transfers of funds should fall partly on the exchange funds' gold stocks and partly on those of the central bank. In England, if out of over £100 of gold loss, the exchange equalization account stood £90 and the Bank of England £10, then the commercial banks would lose £10 of cash and £90 of Treasury bills for each £100 loss of deposits; and their cash ratio of 10 per cent would be unchanged. In this event the impact on the internal credit and banking system would be neutral. If it was thought desirable for the gold loss to have some deflationary influence, then the Bank of England would find more than £10 of gold, and the exchange account would provide less. This is the main adaptation needed in England (and probably in Holland). The United States and France could also devise the proper adaptation needed to bring their Exchange Fund systems into line. Once uniformity of technique had been reached, it would be much easier to concert a common policy with special reference to this need of ensuring that gold movements exercised their proper impact upon the internal supply of commercial bank cash and credit.

BILATERAL TREATIES

THE next great problem is that of restrictions upon world trade and exchange. The Economic Committee of the League of Nations gave a lead when it stressed the fact that currency realignment was an essential preliminary to the relaxation of trade and exchange restrictions. By currency realignment they clearly meant the devaluation of the franc, and M. Blum has already followed up devaluation by sweeping reductions in the French tariff and the removal of a number of import quotas. Mr. Morrison, speaking for the British Government at the League of Nations Assembly, has hinted at the practical difficulties of this question. Each government will be pressed by interested parties at home to take measures to counteract the new competition which will arise from devaluation, and he insisted that unless all countries simultaneously withdraw their restrictions it will be difficult for any government to resist this new pressure of vested interests. Thus the problem is by no means easy, but certain broad lines are clear.

First, there must be no increase in tariffs to offset the new competition from the gold bloc countries, due to devaluation, for such an increase would defeat the real object of devaluation. Next, we must not try to do too much at once. Probably the most practical means of approach is the continuance of the policy employed by Great Britain and the United States in concluding bilateral trade agreements with other countries with extensions to third parties through the operation of the most favored nation clause. The ideal is the alternative idea of the formation of a low tariff group of countries consisting initially of the countries comprised in the recent monetary agreement, but it is essential to get immediate results, and for this reason the way of bilateral treaties is probably the best.

"GET GOODS MOVING"

IN any case the nations should unite in recognizing that the overriding need is to get goods moving about the world. A joint understanding not to raise tariffs at all would be a good beginning, and this might be followed by negotiations for the gradual lowering of tariffs. Meanwhile, import quotas and exchange restrictions should disappear as quickly as is practicable, giving place to a straightforward tariff of a reasonable but not prohibitive height. These tentative suggestions recognize that progress must be slow, and that few nations would admit that their industries do not need some measure of protection. Still, by restoring monetary equilibrium, the devaluation of the gold bloc currencies has made it far easier for most of the nations of the world to approach this problem, with the possibility of general agreement and fruitful results.

The recent monetary events have been another swing in a long cycle. Below, a page of cartoons which appeared together in this publication's May 1925 issue

"The President Is Right"—Williams in the Los Angeles Examiner

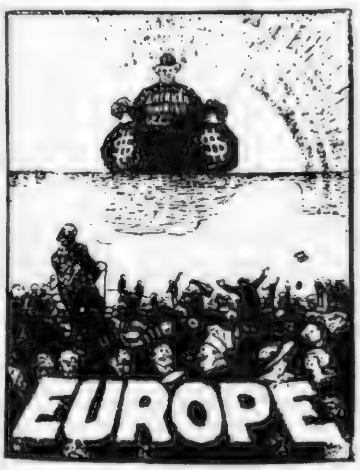
"Flirtation"—Murphy in the San Francisco Examiner

"Won't Take His Medicine"—Murphy in the Chicago Herald and Examiner

"The Millstone"—Orr in the Chicago Tribune

"Change of Treatment"—Rodger in the San Francisco Bulletin

"World Ties of American Enterprise"—in the Newark Evening News



"Prosperity Dawns Again for Europe"—McKay in the Hartford Times

"Blowing Bubbles"—Fox in the Rochester Democrat and Chronicle

"Stop, Look and Listen!"—Cargill in the Springfield State Register

A Bank Ad Man's Holiday

By G. EDWIN HEMING

Vice-president and Trust Officer
The First National Bank & Trust Company
Freeport, New York

PERHAPS no other banker spent his vacation as I did this Summer—working in an advertising agency. Some may think that a queer thing to do. One banker suggested laughingly, when he learned the purpose of my visit to New York, that I must have stayed out in the hot sun too long. But in the next breath, he told me that he had just returned from a two weeks' study period with the Graduate School of Banking at Rutgers. So, after all, this interest in kindred lines is not so hard to understand.

My interest in advertising dates back a number of years. The first bit of copy that I wrote for my bank—now that I look back upon it—was nothing to boast about, although I thought it a masterpiece. However, it caught the fancy of our bank president—that was 15 years ago—and I have been handling the public relations of the bank ever since. At that time I was a teller and had lots to learn about merchandising our services, but I read every book and bank journal about advertising that I could get hold of and absorbed some of the general principles.

"I HAD NO IDEA . . ."

IN those early days I soon reached a point where I became a bit cocky. Whenever a representative of an advertising agency called at the bank, with the suggestion that his firm could write better copy than that which we were using, I usually listened in a patronizing manner. Then, when he had finished, I told him that *I* wrote all the advertisements for this bank—as if that were the last word to be said on the subject. Of course, this was the spirit of youth; I have since discovered how much I had to learn, how much room there was (and always will be) for improvement, how hard it is to reach the goal of perfection. Every bit of help that one can obtain, from agencies, from banking periodicals, from the Financial Advertisers Association, from every source, helps one bring that goal a little nearer.

Don Knowlton, in his book *Advertising for Banks*, says that few bankers have the opportunity of spending six months in an advertising agency, and in lieu thereof the banker who is charged with the responsibility of a bank's advertising should get the equivalent from books on the subject so that he can talk the ad man's language. Having spent two weeks in an agency watching the wheels go round, I can appreciate the meaning of his words. I can also appreciate the courtesy and patience of the advertising representatives who called on me in those early days when I thought they had nothing to offer me.

Since the agency executives have prepared scores of campaigns for banks in various parts of the country, they bring a comparative knowledge, as well as an impartial, outside viewpoint, which gives them an immediate advantage over anyone who is employed inside the bank. It is also true that the general public will talk more easily and freely about banks to a stranger than to anyone who is identified with a particular bank.

I had no idea of the thoroughness and painstaking effort that a good agency takes in writing and preparing copy for the individual bank. I did not realize the amount of research and the preliminary study of the bank's problems that such an agency gives to its clients before the first piece of copy is written. Now I know these things from personal contact and observation.

When an agency with a specialized banking background accepts an account, the first step in its program is to learn everything it can that might conceivably have a bearing on the bank's advertising, new business and publicity plans. It might not seem that the location of the shopping district in your city, or the set-up of your municipal government would have any significance in your advertising policy, but these and many other seemingly irrelevant features are taken into account. A book is prepared called the "material book" in which are recorded all the facts gleaned during this research period, as well as information that may be obtained at later dates. Here one may find the history of the bank, its policies, a résumé of its past advertising experiences, its prospective market, its particular local advantages and handicaps, and an analysis of the competition it has to meet. The agency head and his associates saturate themselves with this information until they become part and parcel of the bank itself. All this requires visits to the bank, inspection of its facilities, acquaintance with the personnel, contact and conferences with its officers and directors. Only when this stage has been reached, is the agency ready to apply itself to the business of producing the type of advertising that will most benefit the client.

TEST AFTER TEST

WHEN such things as the appropriation and a definite program have been planned, the actual writing begins. It is a fascinating thing to see an advertisement actually take shape from the time it is conceived in the writer's mind until the finished product is ready for the newspaper or the magazine. The copy writer supplies the idea for the illustration and the headline as well as the theme for the copy. When he has this completed in rough form, it is submitted to the agency head for approval. If it passes this test—and here it often meets its first revision—it is sent to the client for inspection and suggestions. If revision is made by the bank's advertising manager, the agency rewrites the advertisement until it meets with his ideas.

Then it is sent to the layout department where a pencil sketch is made of the illustration and the headline, and the copy for the body is indicated with pencil lines. When this is satisfactorily completed, the illustration is drawn and goes the rounds for approval. When all these tests have been met, the resulting product is set in type and the proof carefully studied for any opportunities to make the advertisement more effective. From this point on the agency takes care of all the incidental details necessary for publication, satisfactory position and reproduction, checking and billing.

Copy for booklets, letters, folders, lobby signs and window displays is handled in a similar manner, as part of a carefully developed, unified campaign. Not only are the agency men able to individualize each piece to the particular bank for which it is written, but, having a detached outside viewpoint, they can express themselves in the language of the man who is going to read it.

The agency I selected for study was not too large or "sot in its ways", because I wanted to see a vigorous, growing group that was moving ahead with the new developments in financial advertising. Since new art techniques and copy methods, new types of engravings and mats, new forms of offset, intaglio and letterpress reproduction are proving their effectiveness with the public, it seems to me that one of the most important duties of an advertising concern is to give banks the benefit of these developments promptly. Such banks have an important lead on the rest of the field. On looking into the development of this agency I was interested to notice that, although it has no clients on contract, it holds its accounts. Possibly the banks' knowledge that they can discontinue the relationship whenever they want to is partly responsible for their not wishing to do so.

IMPROVEMENT WITH TIME

FEW bankers care for "flash in the pan" advertising successes, so I wanted to see if a lasting relationship produced continuously better advertising or led to a running out of ideas. I was impressed, in looking over proofs of all past advertisements for clients, to see how they improved steadily from year to year; closer acquaintance evidently resulted in new and better ideas.

It is a stimulating experience, from my viewpoint, to take part in sessions where copy writers of established reputation and artists who do finished drawings in full color for leading national advertisers in the motor, food, apparel and electrical fields, collaborated under one roof to produce the best work they could for a $12,000,000 bank in a town of 20,000 people. It seemed to mean just as much to them as a half million dollar account could.

To the advertising manager of a bank the benefits of this type of service become readily apparent. By availing himself of them he is able to keep in close touch with every bit of advertising that the agency turns out, adding his suggestions and approving the results as he sees fit, yet freeing himself from the actual mechanics of creation and production.

Thus he can put himself in the position of having more time for the development of policy, supervision of personal solicitation, addressing schools and civic bodies, personal contact with customers, and direct merchandising at the point of sale—in the bank lobby. In addition, he will have time for the study of new ideas and the development of the staff of officers and employees into salesmen for the bank. Here again he may draw on the agency for information and material; out of their experience they can give him the benefit of the research they are continually making in the field of banking and public relations.

DETAILED INQUIRY

One advertising agency that handles a trust company account sent a five-page questionnaire to lawyers, judges and others in a painstaking effort to get at the roots of questions on wills and trusts

QUESTIONNAIRE ON ESTATES, TRUSTS

AND THE DRAWING OF WILLS

1. Would you say, in general, that men give sufficient time and study to planning their estates and drawing their wills?

Yes ________ No ________ Remarks: ________________

A. In this respect, are women more conscientious than men?

Yes ________ No ________ Remarks: ________________

4. What are the principal reasons for failure of those estate pl[ans] which do not fully carry out the testator's expectations as to the benefits his fortune should bring to his beneficiaries? (The following are reasons most frequently given thus far. Please cross out those you consider negligible, and add others).

Imperfections in will as a legal document.

Dissatisfaction of beneficiaries - whether resulting in contest or not.

Economic changes occurring between drawing and probating of will.

Taxpaying Machinery

By L. D. McDONALD

Assistant Treasurer
Warner & Swasey Co.
Cleveland

UNDER the new Federal tax law, corporations earning net profits must pay these profits to their stockholders in the form of dividends or be taxed.

Of profits retained in the business, the first 10 per cent will be taxed 7 per cent; the next 10 per cent will be taxed 12 per cent; the next 20 per cent will be taxed 17 per cent; the next 20 per cent will be taxed 22 per cent; and all above that will be taxed 27 per cent.

Take the case of a corporation which shows net earnings after Federal income tax of $100,000. If this corporation pays out 40 per cent in dividends and keeps the rest of its net profits in the business, it will have to pay $9,700 in taxes. If it pays out only 30 per cent in dividends, it will have to pay $12,400 in taxes to retain the remaining $70,000. In short, retaining the $70,000 in the business will result in shrinkage of the $70,000 to $57,600.

These facts are of vital concern to every commercial bank which has made substantial loans to industrial enterprises.

The new tax law may perhaps not seriously affect old entrenched companies which have already built up ample reserves and are provided with ample working capital from which to make expenditures for new equipment or machinery when such expenditures appear advisable.

The new law may not severely penalize industries in which plant and equipment investment is comparatively small, or those which are not especially subject to the violent ups and downs of broad business cycles.

But to the majority of industries—and especially to industries manufacturing durable goods and producers goods—the new tax law presents a vital and important problem. It represents a serious dilemma to industries which suffer a diminution of business during depression years and must of necessity in good times build up reserves to provide for contingencies during the lean years. It represents a serious dilemma to all industries which are utilizing modern methods of mass production in order to lower production costs and bring the price of their products within the buying range of a constantly larger number of consumers.

Such companies literally do not know which way to turn.

Furthermore, payment of dividends amounting to substantially the entire earnings in any form of stock or debentures might subject principal stockholders of the company to heavy taxes which they could only pay by converting debentures or stocks into cash by forced sale, which would thereby depress the market.

To the commercial bank holding manufacturers' loans—especially to the bank holding old loans, which were made originally on a short term basis, but which now can be repaid only out of accumulated profits on new business—this situation is of paramount importance.

SECURITY PARAMOUNT

ABOVE everything else, a bank must be assured of security. It cannot permit any influence adversely to affect the capacity of the borrower to make repayment. It cannot allow a borrowing company to disburse all its profits in dividends to escape profits taxes if by so doing the borrowing company impairs its permanency and stability by distributing assets which in the future may be absolutely necessary in order to keep its production equipment up to date and in a proper competitive position. Nothing is more essential to the security of a loan than assurance of a continuity of earning power.

On the other hand, no bank desires to have a borrowing company lean over backwards and pay out in taxes to the Federal Government money which might perhaps just as well be paid to stockholders without danger of permanently impairing the standing and assets of the company.

Somewhere in between lies a proper middle ground.

Today most companies which are making money must do three things: (1) pay something to their stockholders, (2) put something aside for plant rehabilitation and (3) pay a profits tax on the latter amount.

The problem is one of facing this situation on a factual basis. The question with most companies is not whether profits should be taken out in dividends or retained in the business. The question is *what percentage* of profits should be paid out, and what percentage of profits retained.

From this point of view the dilemma can be faced on a foundation of facts rather than theory.

The primary desire of every company is to remain in business. From the long term point of view, stability, continuity and retention of basic investment values represent the best interest of the stockholders. These are of paramount consideration—far more important than current rate of dividend distribution.

Continuity and stability in turn depend very largely upon condition of productive equipment. No company can long remain in business with obsolete equipment, which necessitates production costs too high to enable the company to meet competitive conditions.

The very first questions to be considered, therefore, by a manufacturer, are: What is the present state of my manufacturing equipment? How much of it is obsolete? How much of it represents high cost production? How much of it should be replaced with newer, more efficient and more productive models?

A careful study of plant equipment will disclose, in the case of most manufacturing companies, that there is a certain proportion of machinery which should be replaced immediately—another portion of equipment which should be replaced as soon as possible.

Out of this survey, the manufacturer will arrive at a quite definite figure which presents the amount of money that really ought to be set aside for equipment replacement.

Checking this against his profits, he may then decide, as a matter of practical expediency, how much of his profits ought to be distributed to stockholders, and how much ought to be retained in

the business to apply against future equipment purchases.

In making such a decision the manufacturer cannot afford to permit the amount of the tax which must be paid against retained profits unduly to influence his decision. The manager of a company is presumably operating that company for the best interest of the stockholders. He must at times protect the interest of those stockholders even against their desire for immediate returns. He cannot afford to jeopardize the stability and continuity of the company by paying out too much in dividends and saving too little for future equipment and machinery, simply because his stockholders are crying for more dividends and because by retaining profits in the business the company is subjected to the penalty of the new tax.

The fact that a tax is imposed upon corporate profits retained in a business does not alter for one moment the fact that productive machinery must be maintained on a proper basis, that obsolescence must be eliminated, and productivity must be increased. Necessity of paying a tax is no excuse for allowing a plant to drift into such a degree of obsolescence that it eventually becomes worthless, not only to stockholders but to the bank from which it has borrowed money.

There is, however, a way out of much of this new tax difficulty. The means are very simple.

It is this—*purchase immediately sufficient money-saving equipment to offset the amount of the tax through additional earnings made possible by the new installations.*

It will naturally be assumed that in making this statement I am speaking as a machine tool manufacturer interested in making more sales. This is quite true.

But it is equally true that as a machine tool manufacturer I am thoroughly familiar with the extent of savings in production costs which can be effected by modern machine tools—and I say without hesitation that in many industrial plants today there are instances in which replacement of old equipment by new equipment would effect, during one year's time, sufficient savings in production costs to more than offset the amount of tax charged against a company by reason of retaining, out of its profits, sufficient money to purchase such new equipment.

Of course the actual amount of the saving is one which can only be obtained by an algebraic formula, because the increased earnings, added to profits, are themselves subject to the tax. But for rough purposes of illustration:

Let us suppose that a company, during 1937, expects to earn $100,000. Suppose that a survey of its manufacturing equipment indicates that it really ought to put $60,000 of that $100,000 into new equipment. This would mean it would have to pay a tax of $12,400. Because it must pay this tax, the company hesitates to retain the $60,000 instead of paying it out in dividends.

Delaying the expenditure for new equipment does not in the least improve the situation. It merely aggravates it. It simply postpones the inevitable time of equipment purchase. The sensible thing for the company to do is to start immediately spending a fair share of its anticipated profits for new equipment, making the amount of savings needed to offset the tax the measuring stick for the amount of new equipment purchased.

In most cases it would not be necessary for a company expecting earnings of $100,000 during a year to spend $60,000 of that amount in order to save $12,400 for the tax. Far from it! Many new machine tools, these days, as borne out by studies of our company, made in manufacturers' plants, and substantiated by actual experience after purchase, show such substantial savings in increased productivity and decreases in production costs that they will pay for themselves within 15 to 18 months—or two years at the most.

The element of time is vitally important in this picture. There is no time to waste. Savings, like taxes, are accruing as time passes. The only way to meet accumulating taxes is to effect cumulative savings. The way to effect cumulative savings is to purchase cost reducing equipment immediately, in order that such savings may immediately begin to accrue.

If such a course of action is vigorously pursued, a company's standing from the point of stability and continuity may be assured, and a foundation may be laid for a future more liberal dividend distribution to stockholders on a basis commensurate with a long term conservative policy.

If such a course is not pursued and dividends are disbursed regardless of maintenance of plant equipment, stockholders may rejoice today, but stockholders and banks are bound to face an unhappy tomorrow.

ETCHING BY WM. C. MCNULTY

Country Banks in the City

By JOHN FARNHAM

IF THE economic difficulties of the past few years have proved nothing else, they have shown the inherent strength of the country's well managed small banks. This is not entirely in accord, perhaps, with popular opinion, which is often inclined to view size as the sole criterion of value, but it nevertheless seems to be proved by the facts.

Table I covers three widely separated cities, in each of which the largest bank is a tower of banking integrity, whose strength and excellence has never been questioned by the most hysterical depositor. Against these three banking paragons have been set three competing small banks. In each instance the small bank is located within a few blocks of the large one and, of course, in each city the same general economic conditions have affected both small and large bank alike. Thus, considering that in all instances the managements are of high calibre and that the banks compared have been able to maintain dividends at approximately identical rates throughout the period of the depression, a comparison of what has happened to deposits and capital structures in the three years ended December 31, 1935, ought to show whether the small or the large bank reacts better in times of stress.

As far as the table goes, the small bank seems to have done a better job. In two cities it has increased its deposits by a larger percentage in the three years covered than has its large competitor, just as, in two instances, its capital fund account has shown a more favorable movement. Admittedly such figures as these are not entirely conclusive, for they do not take into consideration differences in management policy. Some of the banks in these comparisons may have discouraged deposits from governmental bodies, for example, while others may have encouraged them, and some of the banks may have followed a more ruthless writeoff policy relative to slow loans than others. But, considering the calibre of the managements concerned, it seems doubtful that such differences in policy would do more than bring the banks into alignment. Thus, at the least, it can be assumed that the small bank has stood up as well as the large.

The reason for this equality is not entirely obvious, for, other things being equal, a large bank has distinct advantages over one falling below the $25,000,000 deposit limit, which all of the small banks in the table do. For one thing, a large bank can, and usually does, spend a great deal more money in advertising its services. Also, its very size opens to it opportunities for the investment of its funds that are denied to small institutions. But, strangely enough, neither of these factors seems to be effective.

It has already been indicated that the small banks increased their holdings of deposits by at least as large a ratio as did the banks several times their size, and Table II shows them holding their loans up to a higher percentage of deposits as well.

It will be noted that in Table II each small bank, without the exceptions noted in Table I, had a better loan record than its largest competitor. This perhaps holds the key to small bank strength, for, when a bank can maintain its loan volume in the face of rapidly changing credit conditions, there is evidence that it possesses a considerable degree of flexibility. This ability to shift position rapidly is probably the key to small bank success.

Nor can it be questioned that, given equally aggressive managements, a small institution can move faster than a large one. Last year, for example, there was a substantial movement of banks into the field of direct automobile loans, but in nearly every community where the banks made such loans the pioneering was done by the smaller banks. That is not to suggest that the large banks were less alert. They were not, but for them the problems attendant on opening up an entirely new lending field were far more complex.

The bank with a few million in deposits and an officer capable of appraising automobile paper could start making such loans after a few hours consideration. The mechanical details of handling the loans could be run through the bank's regular routine without any additional equipment or expense. Thus, if the bank made any loans at all, it could consider the new field a profitable one, for it had cost nothing to enter it. Also, it could abandon the field at any time it saw fit without loss.

But the large bank's problem was very different, for not only did it have to be satisfied that direct automobile loans were satisfactory collateral for bank credits, but it had to satisfy itself that there were enough loans available to make taking them worth while. Where the small bank could be satisfied with a few loans, the large bank had to be sure it could get many. Then, even after it was sure that the business was available, it had to spend weeks in erecting a mechanical structure to handle the business, for, where the small bank could take its automobile paper into its regular departments, the large bank had to create an entirely new department, staffed perhaps with a freshly recruited personnel. All this involved a considerable investment which would be converted into a loss if the field did not prove a fertile one. Hence the large bank had to move slowly in comparison with its smaller rival. Such examples as this may explain why, on the whole, small bank loan ratios have stood up better than have similar ratios in large banks.

Another explanation may be found in the answer of a typical president of a successful small bank when he was asked how he could so successfully compete with his larger neighboring rivals.

"The answer is that I don't compete," he said. "They operate in one corner of the field and I in another. They can't take my business from me and they wouldn't know what to do with it if they could, and I can't take their business from them. To use a comparison, men with unusual figures go to custom tailors for their clothes and men who are easy to fit go to clothing stores. This bank is the custom tailoring establishment of this town's banking. We cut our cloth to fit the customer and a great many people must have that kind of service, but a big bank can't supply it as well as we can, because their business is so large that it must be standardized.

"Of course, the opposite also holds true and we can't do the things that they do well. Thus, I don't feel that I am in competition with the large banks here nor that they are competing with me. In fact, I imagine that no really successful small bank ever competes with a large one, for if it did it wouldn't be successful. The same applies to large banks."

Table I

	Deposit increase 12/31/32–12/31/35	*Per cent gain or loss in capital funds*
CITY I		
Largest bank	42 per cent	10 per cent decrease
Small bank	37 per cent	4 per cent decrease
CITY II		
Largest bank	33 per cent	13 per cent decrease
Small bank	38 per cent	22 per cent decrease
CITY III		
Largest bank	36 per cent	3 per cent increase
Small bank	90 per cent	15 per cent increase

NOTE: Respectively, the largest bank is 100 times, 20 times and 40 times larger than the competing small bank, although in no instance is the small bank the smallest in the city covered. In these banks, the range in deposits is from $1,200,000 to over $1,000,000,000.

Table II

	Per cent of deposits invested in loans and discounts (real estate excepted) 12/31/32	12/31/35	*Per cent of decline*
CITY I			
Largest bank	60	31	48.3
Small bank	31	19	38.7
CITY II			
Largest bank	70	42	40.0
Small bank	22	16	27.3
CITY III			
Largest bank	22	16	27.3
Small bank	52	45	13.5

A Sound Base for Trust Fees

By HENRY A. THEIS

Vice-president, Guaranty Trust Company, New York City

FIDUCIARIES all over the country have been very much concerned over the attitude of the courts toward fees allowed fiduciaries for services as agent and depositary under receiverships and bankruptcy proceedings. The general feeling is that judges have been influenced by loose criticism and public clamor, but anyone who has examined the various and multitudinous claims for allowances of fees presented to courts, in even the most simple reorganization, realizes the difficult problems which confront the judges in arriving at what is fair and what is not fair. For the duty rests inescapably on the judge to ascertain what is the value to the trust estate of the services rendered by claimants. The only way this can be done is from the evidence submitted.

In the past, fiduciaries have been in the habit of computing the fees claimed by them from community schedules, or their own individual schedules, which they have found, after years of experience, to produce what they consider fair and reasonable amounts. They have overlooked the important fact that although they themselves know these schedules to be fair and reasonable, the judges are not in possession of these facts.

A JUDICIAL OPINION

JUDGE Francis G. Caffey, of the Southern New York Federal District Court, in an opinion rendered by him stated with clearness the position of the court, when he said, ". . . no court judicially knows what the experience of depositaries has heretofore been. Each court, therefore, called on to consider such experience must be informed of it by evidence. So also, from the standpoint of those whose money is to be employed in meeting the bills of depositaries, unless it demand that a showing be made by testimony, the court would deprive the beneficiaries of a chance to question what, in the absence of testimony, is a mere contention. . . . However well trained may be its staff, I assume from the statement that employment of the scale would be both convenient and advantageous to the depositary. Nevertheless, it seems to me it must be conceded that —for the most part at least—the scale is a mechanical device. Before I should feel willing to adopt it, its merits must be established by proof. In any future case I shall gladly listen to such proof with an open mind. . . . I cannot overemphasize my feeling of the necessity of applicants sustaining their charges for services with adequate proof."

From the foregoing it would seem to be futile for fiduciaries to hold the feeling that the cuts in the applications for allowances of fees by fiduciaries have been brought about by pressure groups bearing down on the judges. Perhaps there are isolated cases where this may be true, but it certainly cannot be claimed to be so generally.

Probably fiduciaries in the past have not realized the necessity for backing up their applications for allowances of fees with sufficient proof. Until fiduciaries do this they should not complain if the judges reduce the amount of their requests.

The furnishing of proof necessarily presents a complex problem. Costs in industry can be fairly well determined, because industry for years has employed cost accounting systems. That cost accounting is feasible for the fiduciary business has been proved by cost accounting systems in effect in a number of institutions for many years. But cost accounting in the fiduciary business is not yet as general as it should be, to give it the weight enjoyed by cost accounting methods of commercial or manufacturing business.

The question then arises as to what margin of profit is proper. Many believe that a net profit of from 40 per cent to 50 per cent of the gross (before taxes) is fair and reasonable. Operating costs may be the means by which profits may be compared, but they should not alone determine the profits. In the fiduciary business other elements besides costs need to be taken into consideration, such as responsibility and liability. These are highly important and real features entering into the appraising of the value of the service, and they must be taken into consideration in determining reasonable profits. Unless they are properly explained and emphasized, judges will measure their allowances of fees solely by operating costs.

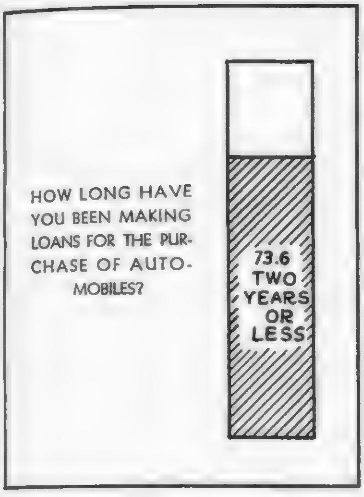
The total of a reasonable profit on operating costs and a reasonable allowance for responsibility and liability, if added together and measured against operating costs alone, may seem to produce an unreasonably large profit, which appearance of unreasonably large profit vanishes if you recognize that a fiduciary is entitled to a profit on operating costs, and something for responsibility and liability.

For this reason, the time analysis method of determining costs is not a fair one unless idle capacity and overtime are taken into consideration. Certainly, the cost on a single account determined from a time analysis is not a fair method of computation, because it fails to take into account the maintenance of an organization which can take care of the highest peak of activity and must be maintained through the lowest valley of inactivity.

A supplier of raw materials to a corporation in receivership or bankruptcy is not required to establish his price by evidence. His price is established by a competitive market. The fiduciary business is in a competitive market and the fact that fiduciaries all over the country have come to similar conclusions as to reasonable rate schedules, should, to some extent, establish the price level. Testimony as to fees allowed by judges in reorganizations of a similar character and similar volume should have a bearing upon the conclusion arrived at by the judge considering the particular business before him. Better still might be evidence showing what a fiduciary is paid for services to going concerns.

In the final analysis, the institution which has installed a cost accounting system has the best chance of being able to support its claims for allowances with facts upon which judges can form conclusions.

Automobile Loan Survey



By ARTHUR T. MOYER

Manager, Automobile Department, Insurance Company of North America, Chicago

THE average banker can lend $1,000,000 in small units of $300 each, with automobiles as collateral security, and expect a total repossession loss of only $127.22. That is the most startling fact revealed by a survey of banking opinion recently conducted in the Midwest.

A questionnaire was sent to about 400 bankers, with a surprising return of more than 50 per cent. The result supplies a reliable cross-section of fact and opinion from banks in large cities and rural villages, operating in 17 states.

As could be expected, the survey indicates a wide variety of opinion and theory. On certain points, however, there is striking uniformity.

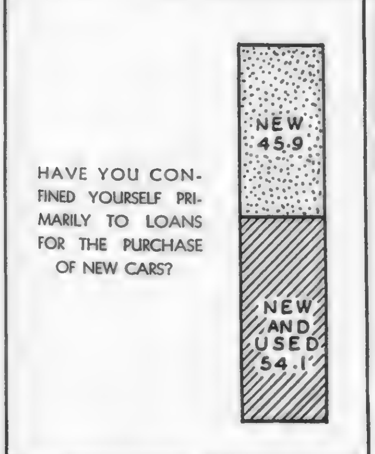
What do bankers think of these loans? To the question, "Have the repayments on individual loans been made satisfactorily on the whole?", 200 replied in the affirmative. A few qualified with "Payments have been mostly satisfactory", and "Yes, fairly promptly". But 99.5 per cent of the answering bankers said "Yes", "Yes, very much so" and "Consider it best class of loan available at present time depending, of course, on downpayment and past experience of purchaser."

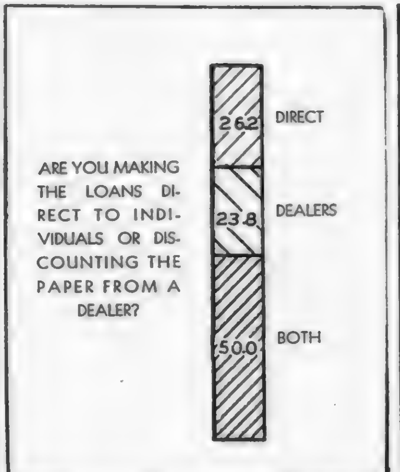
A corollary question asked was, "Do you consider it desirable business? Would you care to increase your volume of these loans?" The answers reflect the satisfactory experience developed on these loans. All of the bankers answered "Yes" to the first part of the question. Three replies indicated that the individual banker had about enough of these loans in his portfolio for the present. One of the three admitted that these loans were now more than 10 per cent of his total loans. Unanimously, bankers voted it desirable business. All but three wanted to get more of these loans!

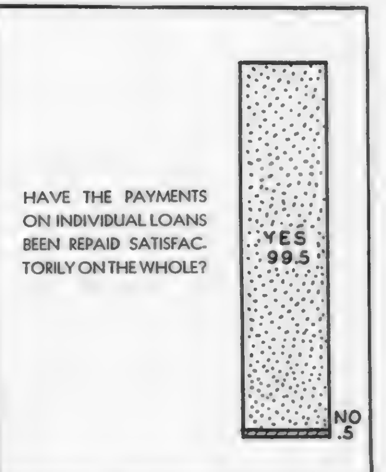
Is this movement toward instalment loans entirely new and a depression product? Many industrial concerns did find new markets for their product or developed new products during the past five years. Thirteen bankers said that they had been making these loans for ten years or more. There was one veteran of 20 years' experience. By far, the great majority of the bankers, however, really began to look seriously at these loans only within the past two years. It is safe to say that the depression had a lot to do with it.

The bogey of repossessions was something about which bankers had heard much. How could they go about repossessing a car to satisfy the loan? So the question was asked, "How many repossessions were you forced to make during the past year? Did you lose any money as the result of a repossession?" The complete figures show that there is little cause for worry on this score, for there was only one repossession to 219 loans. To see what that repossession ratio means let us assume that the average loan is $300. Making 219 loans of $300 each is an outlay of $65,700. On this volume one repossession can be expected.

The reason for the exceptional experience is found (CONTINUED ON PAGE 66)







The Month

INTERNATIONAL

FAMOUS RESIDENCE. The White House was 144 years old October 13. Its owners redecorated while they decided on the next tenant

ACME

READJUSTMENT. Traders on the Paris Bourse watched stocks rise sharply when trading was resumed after devaluation of the franc

"COME QUIETLY." Police in London (left) and Paris (right) attended political rallies

PICTURES

WIDE WORLD

The Condition of BUSINESS

FOURTH QUARTER PROMISE. Business has shown steady improvement for three successive quarters and every sign at present points to a full year of progress. This is the first time since the beginning of the depression that there have been nine months of constantly increasing business activity.

Security prices have reached a level not attained since before the devaluation of the pound in 1931. Commodity prices average higher than at any time since 1930 and industrial production is higher than at any time in the last six years.

DEFICITS AND TAXES. Business is not unmindful of the weaknesses in the present situation, of the fact that much of our business activity today is a result of Government deficit spending and mounting public debt. There is the prospect of rising taxes and there is a persistent disposition on the part of public authorities to regulate and restrict business men. Coupled with this is an active hostility in many quarters to big and little business and there are other social and political factors which are not conducive to the free play of individual initiative.

These unfavorable conditions have not been discounted so much as they have been ignored and defied. They are easily recognizable as obstacles which must be overcome. The determination of business to go ahead in spite of these disturbing elements makes the advance seem irresistible.

The average responsible business man has come to realize, whatever the outcome of the election, that the time has arrived when he must justify his right to profit. Any canvass of the situation in all parts of the country will show this to be true. Private business appears fully cognizant of the fact that if the capitalistic system is to prove its fundamental superiority and business its right to self-government, now is the time to do it.

WAR AND PEACE. A comparison between the thriving condition of business in the United States and the disturbing developments abroad furnishes an interesting contrast and constitutes a fair measure of the forward surge now taking place in the commerce and industry of this country.

One of the most bitter civil wars in history continues in Spain with world wide repercussions. The political outlook in Europe is precarious and a study of the news furnishes ample explanation of the widely felt war fear.

Another development abroad which might be regarded as disturbing, or not, depending on one's point of view, is the action of a half dozen nations in devaluing their currencies from 24 to 41 per cent.

ANXIOUSLY AWAITED NEWS

Washington newsmen telephoning Government crop report figures to their offices

HARRIS & EWING

CONGRESS? Nor has the domestic political situation been conducive to that atmosphere of calm hope and confidence in which business normally thrives. A Congress is being elected whose complexion will determine in large measure the treatment that the commerce and industry of the country will receive in the next few years by way of regulatory legislation.

Yet, in contrast with these and a vast array of other conditions usually considered unfavorable, the volume of business has continued to increase steadily, employment and payrolls have risen, commodity and security prices have shown a persistent upward tendency, and industrial activity has expanded, even to the long lagging capital goods sector.

AMERICAN STYLE. Fewer and fewer persons are asking for Government aid in their recovery efforts and for a political way out of our economic difficulties. Business is asking to be left alone and all the principal parties and candidates are asking the same thing.

STEEL PROMISES. Outstanding, both as an industry within itself, and also as an indicator of progress in other industrial lines, is the record in steel. During the past month output reached a point more than 75 per cent more than rated capacity, the highest since 1929. If production during the next two months continues at the present rate the record for the year will have been exceeded by only three other years in the history of the steel industry. Since most of this record is being achieved by the high production in the last half of the year, the prospect for a continued high level of activity is particularly good.

There has been a slight tapering off of demand for steel for automobile makers but the latter will soon be moving toward a record production of new models. Calls for steel for construction purposes have been increasing, the production of machine tools is running more than 50 per cent above the 1926 average, and railway equipment buying has increased.

Thus far the rise in price of $2.00 a ton for semi-finished steel has not affected the trade to any visible extent. It is expected, however, that there will be a general advance in steel prices for the new year, an announcement to the trade being anticipated, perhaps, about the middle of November. Meanwhile, railways and others may place orders at current price levels and the prospect is consequently for a bulge of orders in the next few weeks.

MORE COMMERCIAL LOANS. Developments in banking have been characterized by some notable changes in the figures in the statistical position of loans and investments. The volume of credit for commercial and industrial activity, included in "other" loans, is rising. This is an encouraging feature, not only with respect to bank earnings, but also as evidence of a rising tempo in business generally.

Bank earnings are undoubtedly improving and with the passing of the political campaign there is every reason to anticipate a steady forward movement in all business, whatever the outcome of the election may be.

Between June 30, after the Government had completed its midyear financing, and October 7, the total loans and investments of the weekly reporting banks in 101 cities decreased by $12,000,000, New York City banks being responsible for most of this change.

In the shift of earning assets between these dates, loans to brokers in New York City decreased by $20,000,000; to brokers outside of New York City, $32,000,000. Loans on securities to others, not including banks, dropped $52,000,000. On real estate the decrease was $3,000,000, and loans to banks declined $6,000,000. The bank's holdings of direct Government obligations decreased $151,000,000; of Government guaranteed securities the decrease was $39,000,000, and of other securities $65,000,000. All of these declines totaled $368,000,000.

CREDIT IN DEMAND. Against them was an increase of $356,000,000 in "other" loans, the total amounting on October 7 to almost $600,000,000 more than a year ago. There is probably no figure in current bank statistics which bears more eloquent testimony to the marked change in the course of business than has the rise in "other" loans. It represents a positive demand for credit.

$2,000,000,000 EXCESS RESERVES. Generally speaking banks have had enough funds to meet the increased reserve requirements without difficulty. The excess reserves remaining to their credit are still high, in excess of $2,000,000,000 in the middle of October. It is evident, however, that some banks were compelled to shift investments as well as funds in order to meet their requirements. For the most part this represented drafts upon metropolitan correspondents.

Meanwhile, an analysis by the Reserve authorities with respect to the movement of funds by the banks, indicates that declines of excess reserves average 51 per cent in central reserve city banks, 38 per cent in reserve city banks, and 21 per cent in country banks. The influence of the drafts of the country banks upon their metropolitan correspondents is evident.

SHELTER AND CONSTRUCTION. Building construction, from a seasonal standpoint, continues high. There has been a slight decline in both residential and other construction compared with the Summer level but activity in this field continues at twice the volume of a year ago in residences, and about 70 per cent above a year ago in other lines. Possibly the rise in building activity so far this year has been much more pronounced and more important than is generally appreciated. The F. W. Dodge figures for the first nine months of the year show a rise of 73 per cent for the same period in 1935 and an increase of 23 per cent over the total residential construction in the whole of last year.

For the nine months the total construction in 17 eastern states aggregated about $2,000,000,000. Public works continue an important factor but the rise in privately financed construction was larger than at any time in the last six years.

TRANSPORTATION EQUIPMENT. There has been an increase in the output of busses, street cars and other transit equipment and the trend seems upward in the immediate future. The *Transit Journal*, listing a large volume of current orders, predicts that transit companies will spend $300,000,000 in the next five years on equipment.

The demand for street cars is particularly active, while that for trolley busses is rapidly on the increase.

MACHINERY. The demand for general classifications of machinery has experienced a lull which may possibly be due to a disposition on the part of buyers to await the outcome of the presidential election before making commitments. There has been no drying up of orders but rather a hesitancy about completing plans for 1937 before the results of the political contest are determined.

MORE AUTOMOBILES. Prospects in the automobile industry are considered the brightest since 1929. New models are already in production and are expected to reach full capacity by the time of the automobile displays in November. One indication of the expectations in the automobile field is the announcement by Fisher Body that it will spend more than $25,000,000 in plant expansions and new equipment.

ACME

INCLUDING AMERICAN MAKES

A view of the Paris automobile show discloses a number of familiar names

Automobile sales in September were the largest for that month in any year since 1929.

The production of cars and trucks next year is expected to run from 10 to 15 per cent over that of the current year.

Optimistic Textiles. Textiles on the whole are flourishing. The anticipated slowing up in cotton goods has not occurred and it is now hoped that present activity will continue for some time. Mills have a large back log of orders and recent buying has been little short of a boom. Activities in the rayon mills continue at a high rate.

Several important plant extensions are projected, including the construction of a new $10,000,000 establishment at Painsville, Ohio. An outstanding feature of the present time is that goods are moved rapidly into consumption. One reason generally assigned for current activity in textiles, especially cotton, is the removal of the processing taxes.

Shoes. Boom conditions are reported in the shoe industry and production for the whole of 1936 is expected to establish a new record. For the eight months ending August 31 output was reported as 265,600,852 pairs, representing an increase of 8,259,724 pairs over the same period of 1935.

Diesel Engines to Jewelry. General opinion among retailers is that the closing months of the current year will register a volume of buying exceeded only a few times in the history of American business. Prospects of this business cover a wide range from heavy equipment goods such as Diesel engines to jewelry.

Among the leaders in the semi-capital goods lines are air conditioning equipment, electrical equipment, air craft, and machinery of various sorts. There is a marked increase in the demand for luxury goods much of which is handled by instalment sales. Demand is good for household equipment, radios, travellers' outfits, jewelry, furs and higher priced clothing. The demand for sporting goods and Winter sport outfits is reported increasing.

Pre-Christmas. Leading mail order houses report increased sales ranging around 33 per cent over the corresponding period of last year. For the country as a whole and for all lines of retailing advances over a year ago range from 12 to 16 per cent. Orders for Christmas merchandise already booked range from 20 to as high as 40 per cent over the corresponding period of 1935.

Active Capital Market. Demand for high grade bonds continues with only small, temporary recessions in the market now and then. The past four weeks have witnessed some heavy flotations led by the American Telephone and Telegraph issue of $175,000,000 of 3¼ per cent debentures due in 1961. The issuer took $25,000,000 of the bonds for its pension fund, the market heavily oversubscribing the rest.

The Commercial Credit Corporation's issue of $30,000,000, the Pacific Gas and Electric Company's $35,000,000 issue, that of the Connecticut Light and Power for $14,500,000 and other similar but smaller issues were oversubscribed. Present indications are that total flotations during the current year will exceed those of any year since the beginning of the business depression. For the first nine months of the year the amount was $4,683,000,000 of which $1,369,000,000 was listed as new money.

New Plant Outlays. An analysis of registration statements filed with the Securities and Exchange Commission covering issues effective in August indicates an increasing trend on the part of borrowers to obtain funds for new plant outlays and working capital by the sale of securities rather than by bank loans. Approximately 70 per cent of new money sought in the first eight months of this year was to be used for working capital either directly or for the repayment of recent loans made for the purpose. The condition of the bond and general securities markets is such that more and more concerns are planning financing—for the most part refunding issues but also considerable new money.

Statement of Principles of Commercial Banking

Introduction

Definition. A commercial bank is a financial institution, chartered and supervised by the state or Federal Government primarily to receive deposits and provide for current credit needs. It operates under specific laws, regulations and limitations which emphasize that the bank's primary obligation is to serve the public interest.

Purposes. Commercial banks have three main functions. The first is to accept and to safeguard deposits. The second is to permit the payment of money by checks drawn against those deposits. The third is to lend funds at interest to meet the legitimate credit needs of merchants, farmers, manufacturers and others.

Effect on General Welfare. In the United States, where all forms of economic activity are carried on almost entirely by means of bank credit and check, rather than by payment in currency, it is clear that every man, woman and child has a direct interest in the stability of the commercial banks.

Triple Responsibility. For the full development of its usefulness and its dependability, commercial banking calls for the intelligent cooperation of three important groups; namely, the governmental authorities, the great body of citizens and the bankers themselves. Through such joint effort, the commercial banks can attain their largest value to the people as a source of credit in normal times, and as a powerful reserve in periods of emergency.

Essentials. The executives and directors of commercial banks throughout the United States naturally assume the major share of responsibility for the proper conduct of the commercial banking system. Accordingly, for their own guidance, and for the information of the public and its governmental representatives, the following statement of principles which are essential to sound banking practice has been prepared.

Responsibilities of Commercial Banking

Foundation. The bed rock upon which every policy and action of commercial banking should be founded is the principle of stewardship.

Obligation. A commercial bank is responsible to five different groups of people:

- The depositors, whose funds the bank holds.
- The borrowers, to whom it has advanced credit.
- The stockholders, whose money provides the bank's capital.
- The community served by the bank, which will benefit by the soundness and capable management of the institution.
- The officers and employees of the bank.

Relationship. It is imperative to discuss commercial bank responsibilities from the viewpoint of each of these groups. The extent and nature of the commercial bank's relationship differ so completely that there must be firm limitations of service to each group if the others are to be adequately protected in the general public interest.

The Obligation to the Bank's Depositors

Safety Paramount. The safety of the funds entrusted to the bank by all of its depositors must be the foremost objective of the commercial banker.

Investments. Before adopting an investment program for the safe and profitable employment of that part of the bank's resources which are not required in meeting current demands, the executives should analyze the type, character and volume of deposits, in order that the investments may be of proper quality and maturity to promptly meet liabilities.

New Accounts. It is the bank's duty, before accepting a new account, to satisfy itself that the prospective depositor's character, background, and credit references be satisfactory.

Compensation for Services. Since the obligation of the bank to all concerned is best rendered when services are restricted to those for which there is a general demand and which provide a reasonable return to the institution, the banker should inform himself of the actual costs involved in the several branches of the bank's activities. To avoid placing

Purpose

Prepared by the Bank Management Commission and approved by the Executive Council, American Bankers Association, San Francisco Convention, September 1936, this statement does not cover every detail of commercial bank operation and responsibility to the public, but it does seek to summarize the fundamental relationships and responsibilities which exist between the commercial bank and the public.

Committee on Statement of Principles of Commercial Banking

HERMAN H. GRISWOLD, *President, First National Bank & Trust Co., Elmira, New York*, CHAIRMAN
G. FRED BERGER, *Treasurer, Norristown-Penn Trust Company, Norristown, Pennsylvania*
FRED W. ELLSWORTH, *Vice-president, Hibernia National Bank, New Orleans, Louisiana*
P. D. HOUSTON, *Chairman of the Board, American National Bank, Nashville, Tennessee*
FRANK W. SIMMONDS, *Deputy Manager, American Bankers Association, New York*, SECRETARY

an undue burden of risk or expense upon all concerned, by failing to make adequate charge for specific services to certain accounts, it is obviously necessary either to require balances sufficient to reimburse the bank for such services, or to make a fair charge for rendering them. A bank cannot succeed and continue as a sound institution unless it is profitable.

The Obligation to the Bank's Borrowers

PURPOSE OF LOANS. It is an essential part of the banker's duty to know the purpose for which a proposed loan is intended, and to consult with the applicant regarding it. Within the boundaries set by his primary obligation to depositors, the banker should seek to assist in making sound loans to applicants of proper credit standing and of good character.

REPAYMENT. No loan should be granted without a clear understanding between the bank and the borrower regarding the means, methods and time of repayment.

REJECTION. It is often incumbent upon a banker to decline to make a loan to a prospective borrower. Not only should the reasons for rejection be plainly stated to the applicant, but effort should be made to inform him of circumstances under which the desired loan might be made.

LIQUIDITY. A reasonable degree of liquidity is paramount for any bank which seeks to make sound credit facilities available to its community.

LOCAL FACTORS. As a part of its function in the economic life of its community, the bank should strive to give adequate service to local individuals and business enterprises of suitable character, but it is also necessary, in assuring permanence for such service, to know whether the industrial life of the community is well diversified or largely dependent upon one major industry, and to maintain a proper relationship between the volume of local loans and the total of the bank's resources.

CAPITAL LOANS. The demand nature of a commercial bank's liabilities imposes a restriction on the placing of bank funds in capital loans.

PERSONAL CONNECTIONS OF OFFICERS. No banker should capitalize his banking position in the promotion of an outside personal business, nor should he personally accept a profit at the expense of his institution. Where a loan application has been made by a business concern in which he is in any way interested, the acceptance or rejection should be determined by other officers of the bank, or by the board of directors.

LOANS ON MORTGAGE SECURITY. Recent legislation permits commercial banks to engage in making real estate mortgage loans. The banker should never overlook the inherently non-liquid aspect of real estate mortgages, and their liability to wide fluctuations in response to many factors. Loans upon the security of mortgages, whether on farms, urban homes or commercial property, should be granted only when definite means of repayment are assured, and the rights of the bank's depositors safeguarded by specific measures for enforcement of periodical payments.

The Obligation to the Bank's Stockholders

Final Reserve. The very existence of a commercial bank depends upon the investments in its capital which have been made by its stockholders. In any serious emergency, the bank's capital funds stand as the last reserve for the protection of the depositors. The conduct of a commercial bank should be guided by recognition of the vital contribution which has been made by the stockholders, and of the fact that they are entitled to a fair return upon their investment.

The Obligation of the Bank to Its Community

Legal Provisions. A commercial bank, through its charter, operates under a far-reaching body of laws and regulations imposed by the state or national government, and often by both. Commercial bankers, in order to conform to the law, should not only be thoroughly familiar with banking legislation, but should be prepared to offer constructive recommendations to the state and national representatives of the community with a view to such improvements and reinforcement of the banking system as changing conditions make necessary.

Public Information. Since sound banking can never be permanently attained without an informed citizenry and a public understanding of banking functions and responsibilities, it should be a self-imposed task for every banker to take practical steps to inform the people of his community regarding bank policies and operations and the limitations under which they are rendered. Measures to enable bankers more conveniently and effectively to carry out such steps have been developed by the American Bankers Association and the state bankers associations, from which information can readily be obtained either by bankers or by their depositors, borrowers, and stockholders.

The Obligation to the Bank's Officers and Employees

Training. The exacting nature of a bank's work calls for special training on the part of its executives and employees. The incentive to self-education among all the members of a bank's staff should be encouraged in the direct interest of the institution.

A.I.B. Since 1900, facilities for the education of bank employees and officers throughout the United States are available through the elementary and advanced courses provided by the American Institute of Banking, the educational section of the American Bankers Association. The Institute's Graduate School is designed for advanced educational development for bank personnel.

Other Facilities. Not only do many of the local, state and national bankers associations afford additional educational facilities for bank employees and executives, but the benefits received through the interchange of ideas and experience which is possible through membership in such associations have proved an important factor in the development of the American banking system.

Responsibilities of Governmental Authorities

New Charters. While the bankers must bear most of the responsibility for the actual practice of banking, there are other aspects of sound bank operation which are beyond the control of the bankers. Among these is the granting of new charters for commercial banks, by state or Federal agencies. It would appear from long experience that the following principles may properly be applied in approving or rejecting an application for charter:

1. Will the proposed new institution fill a definite need for improved or additional bank facilities in the community?
2. What is the general character and banking experience of the proposed management?
3. Is its proposed capital structure adequate, and are its future earning prospects such as to justify such investment?

Supervision. In the supervision of commercial banks by the state or Federal authorities, special regard should be given to the desirability of thorough examinations, and to the necessity of competent and adequately compensated examining staffs. They, together with the respective supervisory authorities, should be wholly free from partisan influence, both in their appointment and in their work of assisting in the protection of the public against unsound banking.

Responsibilities of Citizens

Vigilance. Commercial banking is competitive. The public has a direct interest in the character and qualifications of those of any group who seek a charter for a new bank. Therefore, there should be active public cooperation with the chartering authorities to assist them in limiting the granting of new charters to only those groups who can meet the requirements as outlined above.

Banking Relationship. In common with every other form of business which closely affects the vast body of people in the United States, banking must operate at a reasonable profit, after the creation of reserves sufficient to safeguard the public. If this is to be accomplished, every citizen in the bank's community has a deeper interest in the soundness of that institution than merely to demand banking service on a price basis. He should support the policy that a bank should be adequately compensated.

Uncle Sam: Landowner

Washington, D. C.

AS of September 1, 1936, the Federal Government, through its credit agencies, owned and held for sale real estate valued at upwards of $225,000,000. This value does not include property in the course of acquisition, which will amount to nearly another hundred million dollars, nor real estate owned by Government agencies for use in their business. The total given represents real estate hanging over the urban and farm real estate markets.

Of this total, considerably more than half has been acquired in the course of the first eight months of 1936. The value of such property held on January 1 last, as reported in Treasury returns, was $115,839,690. The value on September 1 was $226,768,278, an increase of $110,928,588. What the value of the Government's real estate ventures will be a year from now is problematical, but indications are that the increase in holdings will continue for at least another twelve months.

H.O.L.C. HOLDINGS

JUST at present, the chief factor in current increases in the Government's real estate holdings is the Home Owners' Loan Corporation whose ownership of real estate for sale increased from $6,846,379 last January to $63,884,340 as of September 1. All other agencies which have been lending money, however, are in the same boat. The largest proprietors among them are the land banks. The value of their holdings as of January 1 was $92,407,209; as of September 1, $134,821,609.

The Federal Farm Mortgage Corporation also has started actively in the business. On January 1 its real estate holdings had a Treasury valuation of $455,429. On the first of September the valuation was $7,973,510. The R.F.C. also has been forced to foreclose on or otherwise take over property pledged to it. It will be remembered that as far back as 1932 Chairman Dawes of the corporation admitted that in making loans for the relief of various financial and other institutions it had been compelled to "take considerable real estate." At that time the expression meant real estate mortgages. Today it means real estate—$2,774,773 as of January 1, $4,268,400 as of September 1.

Even the Public Works Administration has such property for sale, although not by way of foreclosure on loans. As of January 1 the value was $12,620,513; on September 1 the value was $14,660,129. The P.W.A. from time to time has bought tracts of land for its low cost housing projects. It has not always been able to buy exactly what it wanted, usually being forced to take a tract as it was found. After using what land it has needed for its projects there has nearly always been a margin left over which the administration now holds for sale.

Nearly all the lending agencies of the Government have more or less real estate for sale—the regional agricultural credit corporations, the intermediate credit banks, banks for cooperatives, and several of the relief agencies. The F.D.I.C. owned and had for sale property valued at $411,388 on September 1—property taken over from closed banks in the course of liquidation.

Although the Home Owners' Loan Corporation continues to make the most spectacular showing in this line at the present time, the chief agency in land holdings is the Federal land bank system. The experience these agencies have had in the past two or three years illustrates the whole position of the Government with respect to real estate ownership. At the end of 1932 these banks owned outright real estate valued at $44,753,715 although they had sold farms to the value of $14,697,659 during the previous year. At the end of 1933 the value of their real estate holdings was $65,558,416 and they had sold $14,112,955 the previous year. At the end of 1934 the value of farms owned was $70,411,477 and $17,596,425 worth of property had been sold in the 12 months, while at the end of 1935 the value of property held was $92,407,209 while property to the value of $28,138,748 had been sold during the year.

INCREASED FORECLOSURES

THE values given previous to 1935 are those stated in the report of the land banks themselves. The 1935 total is that of the Treasury reports. Continuing the Treasury report figures, the value of real estate held for sale at the end of January was $121,011,692; February, $122,772,681; March, $125,436,767; April, $127,924,905; May, $129,237,659; June, $132,133,432; at the end of July, $134,203,304; and at the end of August $134,821,609. In the eight months there was an increase of $42,414,400 in spite of the fact that during this same period farms were sold by the land banks to the value of approximately $20,000,000. In other words, foreclosures by the land banks are on the increase at a time when there is a marked increase in the demand for farms, sales are rapidly increasing at improved prices and farm product prices and farm income generally are on the increase.

Specific figures as to the increase in foreclosures are impressive—9,671 in the first seven months of this year as compared with 13,028 in the whole of 1935 and 5,875 in the whole of 1934. At the present time the land banks own approximately 30,000 farms as compared with 22,098 at the end of 1935 and 20,292 at the end of 1934.

A SAMPLE TEST

BEFORE any hasty conclusions are drawn as to these figures, however, it is well to look into the background. There one finds flitting in and out of the picture a number of figures relating to a time which many people regard as the standard by which present days are to be measured. In the year ending July 31 there were, roughly, 10,300 foreclosures made by the land banks. According to a "sample test" almost exactly 50 per cent of these foreclosures were on loans made between 1922 and 1925, and less than 1 per cent were on loans made since 1932. Approximately 38 per cent of the foreclosures were on farms abandoned by their owners. Approximately 18 per cent were on farms where an element of chicanery entered—"chiselers", in other words. By and large, the increase in foreclosures represents a clearing-up process.

During the extreme depth of agricultural depression the land banks followed a policy of considerable leniency. Since

it was difficult to dispose of farms at prices to cover the debts due the banks there was little or no advantage to them in proceeding to foreclosure. So long as the farms continued to be occupied by their putative owners they were better cared for than they would probably have been had a change in nominal ownership been made. There was always the hope that conditions might so improve as to enable a borrower to meet his obligations. The law, also, has provided for a certain degree of leniency and banks have been able to carry delinquent debtors by advances from the Federal Treasury.

With the improvement in general agricultural conditions, however, it has become plain just which farmers could and could not pay out. With improving demand for farms at better prices the banks have seen their way to get rid of sour loans without loss or with a minimum of loss. In short, now seems to be the time for the land banks to get their business back to normal and clear up their portfolios of emergency wreckage.

Moreover, the proportionate increase in land holdings by the Government agencies is less than that of other mortgage lenders. Real estate holdings of the life insurance companies reporting to the Association of Life Insurance Presidents, which include both urban and farm property, increased from \$753,339,000 at the end of 1932 to \$1,905,000,000 at the end of 1935. From \$753,339,000 at the end of 1932 the holdings increased to \$1,102,026,000 at the end of 1933; \$1,431,228,000 at the end of 1934; and to \$1,905,000,000 at the end of last year. The large increase during 1935 indicates that the life insurance companies have been compelled to follow a policy similar to that of the Government institutions, and for the same reasons. They, too, are clearing their portfolios of wreckage.

EFFECTS OF LENIENCY

THE comparatively low record of mortgage foreclosures in the land banks since 1928 or 1929, when the deflation of farm values commenced in a serious way, up to the present year, reflected undue leniency whose cumulative effects must now be registered. Recent activity suggests that foreclosures in the land banks will go much further until their holdings will at least approximate the proportionate holdings of other lending agencies. Under present conditions the Government agencies must act now or lose all; they must take up the slack which other agencies have already taken up. With due allowance for the comparatively short period of its operations this is as true of the Home Owners' Loan Corporation as of the land banks. The increase in foreclosures by the Federal Farm Mortgage Corporation, the R.F.C. and other agencies is merely in line with this general condition. The Government is now doing, late but firmly, what it should have done long ago and what banks and other private interests were compelled to do in the interests of their own depositors or other creditors.

GEORGE E. ANDERSON

The progress of work on the new Federal Reserve Building in Washington

HARRIS & EWING

The Commercial Banking Outlook

The following discussion is the report of the Economic Policy Commission, American Bankers Association, to the Association's Annual Convention in San Francisco in September.

LEONARD P. AYRES, *vice-president, Cleveland Trust Company, is Chairman of the Commission. Other members are:* NATHAN ADAMS, *president, First National Bank, Dallas, Texas;* THOMAS B. MCADAMS, *president, Union Trust Company of Maryland, Baltimore;* MAX B. NAHM, *vice-president, Citizens National Bank, Bowling Green, Kentucky;* CHARLES F. ZIMMERMAN, *president, First National Bank, Huntingdon, Pennsylvania;* J. STEWART BAKER, *chairman of board, Bank of the Manhattan Company, New York;* R. S. HAWES, *vice-president, First National Bank, St. Louis;* WALTER S. MCLUCAS, *president, National Bank of Detroit, Detroit;* A. P. GIANNINI, *chairman of board, Bank of America National Trust and Savings Association, San Francisco;* FRANK K. HOUSTON, *president, Chemical Bank & Trust Company, New York;* JAMES R. LEAVELL, *president, Continental Illinois National Bank & Trust Company, Chicago;* THOMAS R. PRESTON, *president, Hamilton National Bank, Chattanooga, Tennessee;* GURDEN EDWARDS, *22 East 40th Street, New York, secretary.*

COMMERCIAL banking in this country appears to be facing important changes. Perhaps they are the most important that it has confronted since the closing year of the Civil War, over 70 years ago. In that year the Congress enacted a tax of 10 per cent annually on the notes of all state banks, and by that act suddenly drove out of existence a large part of the money with which business was transacted and banking was done. That change made national bank notes our chief form of currency, and developed bank checks into our principal medium for transacting business payments.

The change that is now taking place is that the volume of banking that may properly be termed strictly commercial banking has so far declined that it constitutes but a small fraction of what it was just before the depression, and it has not recovered nearly in proportion as business has recovered. The volume of industrial production has increased until it is now as great as it was early in 1928, and demand deposits are at levels never before reached, but the totals of commercial loans are little more than a third as great as they were in 1928. They are not much more than 10 per cent larger than they average in their lowest year of 1934. It is the purpose of this report to consider whether this condition is probably merely temporary, or whether it is more likely to prove of long duration.

Commercial banking is a term which we imported from England, and it has never been adequately descriptive of our business banking, for commerce has never been the dominating feature of our national activities. When we in America refer to commercial banking we mean the form of banking which bridges the gaps of time and credit in the production and exchange of goods. Commercial banking in its pure form is seasonal banking. It has been that since the days of Adam Smith. He wrote that a bank should loan a merchant only that sum which the merchant would otherwise be compelled to keep idle by him at other times if he furnished all his own capital.

As the years have gone on the accepted concepts of even pure commercial banking have been broadened, but they have alway retained the fundamental principle that its one true function was the granting of short-term credits to finance seasonal requirements arising from the production and exchange of goods. Commercial loans have characteristically been self-liquidating loans, and when they have been represented by commercial paper it has been a cardinal feature of that paper that it did not depreciate in value. Bank loans which did not have these qualities of liquidity and almost complete safety have been known as capital loans. It has always been recognized that when a banker made capital loans he had in some degree become a partner in another man's enterprise, and in theory at least that has been considered bad banking.

These theories of banking have been formulated in the text books, and been laid down by the courts, for many decades both here and abroad, but in point of fact no national banking system has ever conformed to them. Banking is always an integral part of the business life of a nation, and it is governed by the needs and conditions of the times, and not by fine-spun theories which would constrain and restrict it through the counsels of perfection. Thus it has come about that the commercial banks of all the leading countries have come to hold investment securities in their portfolios as well as commercial loans. They have all made loans secured by collateral. They have made capital loans, and directly or indirectly, they have made real estate loans.

By delving through the annual reports of the Comptroller of the Cur-

CONVENTIONS

A.B.A. Meeting, 1937

Oct. 11–14	American Bankers Association 63rd Annual Convention, Statler Hotel, Boston, Massachusetts.

State Associations

Nov. 6–7	Florida, Tampa
May 6–7	Oklahoma, Oklahoma City
May 10–12	Missouri
June 2–3	South Dakota, Rapid City
June 11–12	West Virginia, White Sulphur Springs

Other Organizations

Nov. 9–10	Second Annual Conference on Banking, University of Illinois, Urbana, Illinois
Nov. 16–21	Annual Convention of National Association of Real Estate Boards, New Orleans, Louisiana
Nov. 18–20	Annual Convention, National Foreign Trade Council, Chicago, Illinois
Dec. 2–6	Investment Bankers Association, Bon Air Hotel, Augusta, Georgia
May 6–8	National Safe Deposit Convention, Willard Hotel, Washington, D. C.

NATIONAL BANK DIVISION. William F. Augustine, Vice-president, National Shawmut Bank of Boston

SAVINGS DIVISION. Noble R. Jones, Savings Manager, First National Bank in St. Louis

DIVISION PRESIDENTS, AMERICAN BANKERS ASSOCIATION, 1936–1937

STATE BANK DIVISION. H. M. Chamberlain, Vice-president, Walker Bank & Trust Company, Salt Lake City, Utah

TRUST DIVISION. Blaine B. Coles, Vice-president, First National Bank of Portland, Portland, Oregon

rency it is possible to compile figures showing the composition of the earning assets of all our commercial banks for a long period of years. For this purpose we may consider all our banks except the savings banks as being commercial banks. We may classify their earning assets in three groups. The first consists of investments. The second consists of capital loans which are mostly made up of collateral and real estate loans. The third class we may term commercial loans; and they consist of all the other loans to customers. All bankers will realize that taking the country as a whole the commercial loans so defined include a considerable proportion of loans that hardly deserve to be classified as true commercial loans, but nevertheless this broad grouping will serve our needs for this discussion.

The figures show that since 1900 the earning assets of all our commercial banks have been distributed in these three groups at five year intervals in the following percentages:

PERCENTAGE DISTRIBUTION OF EARNING ASSETS OF ALL COMMERCIAL BANKS

YEAR	INVESTMENTS	CAPITAL LOANS	COMMERCIAL LOANS
1900	22	29	49
1905	24	30	46
1910	23	36	41
1915	23	37	40
1920	23	26	51
1925	28	21	51
1930	28	35	37
1935	56	23	21
1936	60	21	19

It is a fairly accurate general statement to say that since this century began, and up to the advent of the great depression, there has been a pretty steady tendency for our commercial banks to have one-half of their earning assets in commercial loans and the other half about equally divided between investments and capital loans. The variations from this rule have been considerable, especially when business was inactive, but the general tendency has been fairly well defined.

In the period of this depression, and so far during the recovery, a marked change has taken place in these old established relationships. At the present time the investments of our commercial banks, instead of being about one-quarter of their earning assets, are 60 per cent of them. The capital loans are about 21 per cent, but the commercial loans have declined in volume so that instead of being about half of all holdings they are only about 19 per cent of them. As has already been noted, the commercial loans are not much more than a third as much as they were in 1928, and they have not increased much as the recovery has gone forward.

Now this situation is a highly important one for the banks because they are equipped and staffed to handle a very much greater volume of commercial loans than is now available. If the earning assets of banks are to consist for any long period mainly of investments, and in only minor degree of loans, important changes will have to be made in the policies and in the personnel of the institutions.

It would be natural to assume that with a continuing general recovery in business activity there would result important increases in the volumes of commercial loans. There can be little doubt that further business expansion will result in more commercial borrowing, but it is difficult to suppose that it can soon restore anything like the old volumes of loans. If it were going to do so the increases in loans up to the present stage of the recovery ought to have been far greater than they actually have been.

In current discussions of these matters the claim has been repeatedly made that increases in bank loans normally come late in recovery periods, and well after industrial production has made good advances toward normal levels. Almost without exception such claims are based on studies of the Federal Reserve figures which until recently have lumped together the real estate loans and the commercial loans of reporting member banks. Those loans taken together did recover slowly after the depression of 1921. The figures of the Comptroller of the Currency for commercial loans in all commercial banks do not tell any such story. They show that after the depression of 1921 the commercial loans had reached new record-breaking levels by 1923. No such development is under way in this recovery period.

During the past few months a moderate increase in commercial loans has been taking place. An analysis of the Federal Reserve figures shows that it has been almost confined to the loans in the two Federal Reserve districts of Chicago and Cleveland. A plausible explanation of this would be that these are the two districts where the automobile industry is concentrated, and that this industry has been having an exceptionally prosperous year. Those two districts are also the largest producers of many other kinds of durable goods such as agricultural implements and iron and steel products in general.

(CONTINUED ON PAGE 68)

Theodore P. Cramer, Jr., Secretary of the Oregon Bankers Association, is the new President of the State Secretaries Section of the American Bankers Association

Real Estate Management

By OTIS A. BACON

Assistant Treasurer, The Union & New Haven Trust Company, New Haven, Connecticut

SOME years ago our bank was appointed as one of the successor trustees to a title and mortgage company. Our new responsibilities found us comparatively inexperienced in dealing with the problems of bothersome mortgages or foreclosed properties, and, like many other banks, we had neither a real estate department nor a real estate officer.

The job confronting us called for careful, practical study. We assembled all the technical information we could find on the subject of real estate and digested it diligently, only to discover that much of the material was of a theoretical nature. We welcomed the theory, of course, for it gave us background; but we soon found that much of it was of little or no help toward meeting our immediate problem, which was to put on a paying basis, as quickly as possible, the real estate for which we had assumed responsibility.

The question was: What could we do to hold the properties intact until they could be marketed at reasonable values? Our first step was to consult local real estate men and get their suggestions for establishing our properties on a basis that would make them at least self-supporting. Most of the pieces were then in a rather sad state. Former owners had done little or nothing in the direction of proper maintenance, merely endeavoring to liquidate their losses as fully as possible before foreclosure.

REPRESENTATIVES APPOINTED

AFTER our conferences with the realtors we drafted a plan. Inasmuch as we were responsible to some 2,000 noteholders, we decided that our real estate organization should be sturdy, capable and practical. The best procedure, we felt, from the standpoint of the bank and the noteholders, was the appointment of realtors to represent us in each city where we had real estate. Property management, it seemed, was a profession in itself, and distinct from other branches of the real estate business, and so we went ahead on the theory that the best property managers were men who had owned and successfully operated real estate of their own.

We now have about 37 of these realtor-managers in the state of Connecticut. On the whole our system has proved decidedly advantageous, and we have made very few changes in the personnel of our professional agents.

When we assign a property to an agent we expect him to make a complete survey of the building, giving his expert attention to such details as its general condition, the heating plant, interior and exterior decorating, landscaping, roof, the rental as compared with other buildings in the vicinity, and fuel consumption. Then we ask him for his analysis and recommendations for reconditioning. These reports are checked by our real estate department to determine whether the suggested changes will increase the net income from the property.

We visit each property with the agent. We are especially particular about the outside of the building and endeavor to make it the equal of, or a little superior to, its neighbors. Particular attention is paid to the paint, the lawn and the shrubbery, for we think it is important to emphasize, by these means, the building's best architectural features. The first impression a prospective buyer or tenant gets is usually lasting; we try to see that it is favorable.

Inside the building, we start with the foyer or halls, making them as attractive as the neighborhood would seem to warrant. If the property is an apartment house, we next proceed through the suites, giving each a thorough renovation—paint, paper, floor finish. The latter, in fact, receives extra attention, for people like good-looking floors.

We have found that redecorating can be inexpensive if shades and colors are harmonized to emphasize the features of a room. Proper shades of paint, for instance, will make a bright room mellow and will lighten a dark room. The good property manager has taste and sound judgment; if he does not have these critical faculties, he must hire some one who knows how to produce a desired effect.

When we have finished our reconditioning job we are in a position to rent an address rather than just a house. Our properties have distinction.

Perhaps a few examples of what we have done along these lines—and they are profitable lines—will be of interest. One of our buildings is an 18-family apartment, in a fairly desirable location. It was managed by the former owner, and we thought it would be well to let him continue to handle it for us.

A COMPLETE JOB DONE

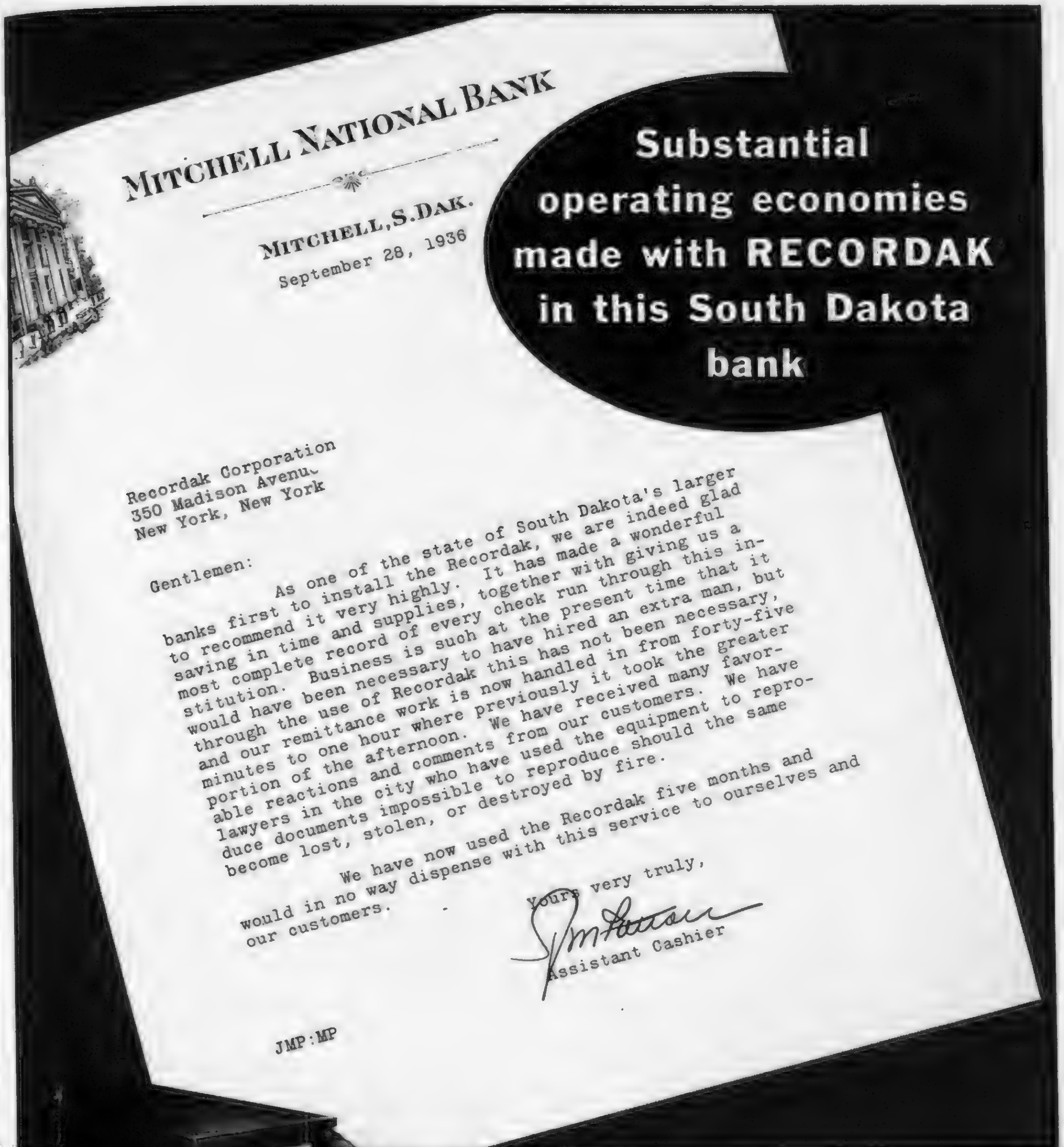
THE place had been sadly neglected and was fast becoming obsolete when we assumed responsibility. We asked the advice of a local realtor who, after an inspection of the property with a view to seeing what could be done to augment the income, recommended that it be completely renovated and modernized.

"Spend a little money here," he said, "and you'll have a good investment. The place, as it is now, won't draw the class of tenants you want. The plate glass in the front door is broken, there are milk bottles, grocery cartons, and even iceboxes in the halls, and the cellar is so filled with junk that it's a real fire hazard. Also, there's—"

"All right," we said. "We'll fix it up."

We did. The property manager was told to dispossess undesirable occupants, and also families who would not help us improve the place. The halls were cleaned, we bought new gas stoves and refrigerators, scraped the floors, painted the woodwork, and put in new window shades. The cost was $3,400, but we had what amounted to a new house. The whole atmosphere of the premises changed; the tenants appreciated their pleasant surroundings. And whereas previously the building had yielded about $300 a month in rent, three months after our housecleaning the income had been boosted to $647, and every apartment was occupied. Incidentally, the building was graduated from a Class D to a Class B property.

In another city we spent about



MITCHELL NATIONAL BANK

MITCHELL, S. DAK.

September 28, 1936

Recordak Corporation
350 Madison Avenue
New York, New York

Gentlemen:

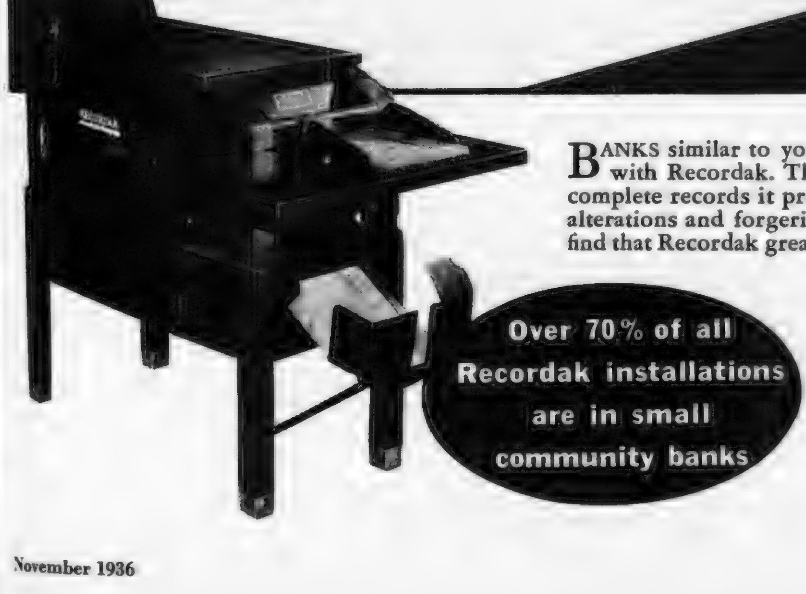
As one of the state of South Dakota's larger banks first to install the Recordak, we are indeed glad to recommend it very highly. It has made a wonderful saving in time and supplies, together with giving us a most complete record of every check run through this institution. Business is such at the present time that it would have been necessary to have hired an extra man, but through the use of Recordak this has not been necessary, and our remittance work is now handled in from forty-five minutes to one hour where previously it took the greater portion of the afternoon. We have received many favorable reactions and comments from our customers. We have lawyers in the city who have used the equipment to reproduce documents impossible to reproduce should the same become lost, stolen, or destroyed by fire.

We have now used the Recordak five months and would in no way dispense with this service to ourselves and our customers.

Yours very truly,

Assistant Cashier

JMP:MP



BANKS similar to yours report substantial savings with Recordak. They are enthusiastic about the complete records it provides, the protection against alterations and forgeries. And they are delighted to find that Recordak greatly increases their facilities for service to customers. Recordak's savings amount to as much as 45% net on per item costs, as much as 50% in supplies, as much as 90% in storage space. Recordak Corporation (subsidiary of Eastman Kodak Company), 350 Madison Avenue, New York City.

$1,000 doing over a small apartment house. We cleaned and fumigated it, replaced fallen plaster, redecorated the rooms, fixed the heating system, and installed new plumbing fixtures and gas stoves. The gross monthly income has been lifted from $130 to $320, and the building is entirely rented.

Last Winter we took over a property which to us represented some $3,400. It was recommended that we dispose of it for $500 provided some one would assume the taxes due. Our real estate department looked the buildings over and decided that the taxes should be paid and the premises reconditioned at a contract price of $1,244. We knew, of course, that we had a loss, but thought it might be reduced. When the renovation was completed the property represented an investment of $4,988.15. We rented it for a year at $35 a month, and recently sold it for $3,500, thereby reducing our loss to slightly less than $1,600, including the commission on the sale.

In a 12-family apartment house we changed the plaster in the halls from a rough, dust-collecting surface to a smooth finish, which was lighter, cleaner and more attractive. We also laid new carpet in the halls. The rate of occupancy in this property was 56 per cent in 1932 when we took possession. In 1933 the rate rose to 66 per cent, increasing to 93 per cent in 1934 and to 99 per cent in 1935. This year all the apartments are occupied.

We have found that we can get better and more economical work by choosing property managers who already have organized facilities for management. These men have mechanics, painters, carpenters, plumbers and electricians who are familiar with the manager's standards, and who can do a job quickly, efficiently and at a minimum expense to us.

The property manager who knows his business will try to increase the monthly income from a house. He will also cut expenses. He will check insurance rates and have the property periodically inspected, referring to the bank recommendations for correcting defects which may have a bearing on premiums. We recommend that all agents carry full insurance coverage on buildings they manage.

We also want them to write friendly and appreciative letters to tenants who move out, and to new families moving in. Thus we make friends of the arrivals, and keep the good will of those who are leaving us.

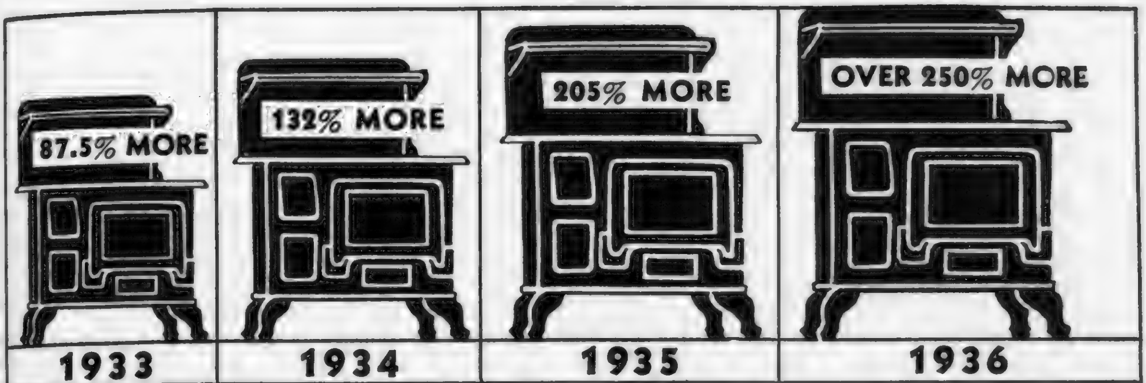
We try to assist our agents in cutting operating costs by getting a price from one company on the fuel oil used in all our buildings. We expect the managers to compare the fuel consumption year by year, and we send them our annual report so that they can compare it with previous records. We ask that they give full value in service to our tenants.

In compensation, our managers receive commissions amounting to 5 per cent of the annual gross incomes from properties they handle.

HARRIS & EWING

MATERIAL STANDARDS

Banks with real estate are vitally interested in quality building materials, for, as Mr. Bacon says, "When we have finished our reconditioning job we are in a position to rent an address rather than just a house." At left, a machine used by the Bureau of Standards to test the maximum strain that building materials will stand



Increase in Washington Stove Work's Sales, Year by Year, Over Sales in 1932

Up Sales

and Bring Lasting Benefits

1932 found the sales volume of the Washington Stove Works of Everett, Washington, the worst in the history of that company.

Instead of sitting back and waiting for business conditions to pick up, however, the directors decided to act promptly and find out what was wrong. They called in the George S. May Company and instructed us to make a complete analysis of marketing and merchandising methods.

The analysis revealed many possibilities which had previously been overlooked. Merchandising defects were promptly corrected; new principles and policies established. Sales stopped falling off and commenced the remarkable upward climb referred to in Mr. Mackey's letter on the opposite page. Later reports indicate that the 1936 sales will exceed those of 1932 by more than 250%.

The Washington Stove Works is only one of more than 1500 manufacturing concerns which have found May Methods the correct answer to difficult problems. May clients are located throughout the United States and Canada and are engaged in almost every line of industry.

If you have perplexing sales or production problems in your own business, why not let the vast experience and specialized knowledge of May Engineers help you to solve them? An inquiry addressed to our nearest office will bring complete information.

GEORGE S. MAY COMPANY

CHICAGO: 2600 North Shore Ave. SEATTLE: 710 Second Ave. NEW YORK: 122 East 42nd St.
CANADA: George S. May, Ltd., 18 Toronto St., Toronto ATLANTA: 134 Peachtree St.

Foreign Trade

A COMPARISON of the trade balance of the United States with various foreign countries, from the pre-depression years to the present, shows a number of significant changes, says an analysis by the National Industrial Conference Board.

Our merchandise trade with all foreign nations during the period 1926–1930 showed an average excess of 18 per cent of exports over imports, the analysis states. In each succeeding year exports exceeded imports, rising to 29 per cent in 1929. The following year the percentage dropped to 12 per cent, and in the first six months of 1936 imports exceeded exports by about 1 per cent. The second half of the present year, the Board says, may show a different relationship between exports and imports.

IMPORTANT CUSTOMERS

AMONG our best customers, shipments to the United Kingdom for 1926–1930 exceeded importations by 157 per cent, rising in 1932 to 286 per cent. The relative trend of the export balance has been downward since the latter year.

The figures for Canada show a marked decline in the "favorable" balance. In 1935 our exports to the Dominion exceeded the goods we bought from our northern neighbor by 13 per cent, as compared with 75 per cent during the 1926–1930 period.

America's merchandise trade with Germany shows a declining relative balance of exports since 1932. The excess over imports in 1935 was 18 per cent, compared with 82 per cent in 1932 and 90 per cent for the average from 1926 to 1930.

During the five-year period ending in 1930 imports from Japan exceeded American exports to that country by 54 per cent. In 1932 and subsequent years exports exceeded imports. The export balance in 1934 was 77 per cent and in 1935 approximately 33 per cent.

In China and Argentina the trend of the balance of trade was reversed in 1935. During the preceding four years we sold more goods to those countries than they sold to us, but in 1935 our imports from China exceeded our exports by 68 per cent. In the case of Argentina, imports in the same year exceeded exports by 33 per cent.

Centralized Control of Real Estate

THE problem of nursing orphan real estate properties back to health, so that they can be offered for adoption elsewhere, was outlined from the savings bank viewpoint by Charles G. Edwards, president of the Central Savings Bank of New York, in addressing a New England regional conference of the National Association of Real Estate Boards held at Springfield, Massachusetts.

Mr. Edwards, a former president of the association, told the realtors of a plan under consideration in New York City, whereby the least desirable of these properties, which cannot be made to carry themselves, would be turned over to a corporation organized for the purpose and controlled by the participant savings institutions. The banks would receive debenture certificates representing the value of parcels thus placed in trust. The corporation would manage, repair and sell these holdings, crediting each subscribing bank with its share of the proceeds and turning over to the subscribers, in redemption of the debentures, such cash and purchase money mortgages as they may take back in part payment.

The Central Savings Bank divides its real estate owned into three classes: First, the least desirable pieces, just referred to, which the bank is ready to sell for what it will bring, but for cash, for, said Mr. Edwards, "we do not want mortgages in this class again."

There is also a middle classification, comprising real estate that does not pay the carrying charges and taxes because it needs assistance.

The third class contains the best parcels which for one reason or another have a value greater than their cost to the bank. They are for sale, although the prices are now above the market; eventually, however, they will not be, and the bank hopes to profit. Several sales have already been made.

"In classes one and two," Mr. Edwards said, "we have our greatest problem—that of paying large annual losses in taxes and maintenance charges. But this problem is being met through the rehabilitation of the properties in Class 2. From our experience we know of no better investment than to put two or three millions into betterments that

will result in a saving of $200,000 to $300,000 of annual carrying losses (a 10 per cent investment) and in many cases result in a fair to a substantial return on the original cost, plus the additional money spent.

"I have heard it said that modernizing these old structures is wasting money and that we shall never get it out; but I know that many people prefer the old if it has modern conveniences and especially if it costs less than the new. These older buildings can be modernized and profitably operated at rentals amounting to half of what must be secured in the modern structures.

"The best interests of our clients can be served only by keeping such holdings in good condition, and comparable to well groomed and fairly modern dwellings. Few sales are made for cash, so that the bank will probably have a major stake in these holdings for some time to come. Such modernization creates employment for a great many people and provides decent accommodations for persons of low incomes who still prefer the old, provided sanitary conveniences and modern improvements are available.

"I am confident that this policy is the correct one and that with the return of prosperity and the value of real estate enhanced, we shall lose nothing."

COMBINATION OF METHODS

"IN THE management of these properties there are two methods to use: (1) the agency form, wherein the property is placed in the hands of a real estate agency, or (2), the creation of a fully equipped real estate department in the bank. Neither of these methods is in my opinion adequate. We have adopted both. They function together, one under the supervision of the other. The result is that our real estate department has a personal interest in the bank's properties, the real estate agent providing the facilities for execution of our plans and for the ultimate sale of each piece.

"The real estate owned by the banks today is generally in poor condition. We can find plenty of buyers who are willing to take it off our hands if we lend them the money to buy it and to fix it up, giving us a small part of the income as interest, and handing the properties back after they have been thoroughly 'milked'. We have had enough experience to know that these orphan properties are in better hands with the banks as their adopted parents, than they would be if sold under such conditions, and that they ultimately will be sold to the investor who can hold them and pay interest and amortization."

Federal Credit Unions

FIGURES on the distribution of federally chartered credit unions, by states and by type of membership, have been compiled by the Credit Union Section of the Farm Credit Administration.

The data show that on September 30 last there were 1,674 of these associations operating under charters issued by the F.C.A. in accordance with the Act of 1934. Increasing at the rate of about 100 a month, Federal unions are now to be found in every state of the Union, as well as in the District of Columbia and Hawaii.

The figures do not cover state credit unions, of which there are some 3,500, nor do they report on the assets or lending activities of the associations organized and operated under the Federal law passed two years ago. Readers of BANKING will recall that the article "The Rise of Credit Unions", in the July issue, presented a composite picture of the whole credit union movement.

THREE GROUPS

THE F.C.A. compilation places these cooperative associations for saving and borrowing in three main groups: associational, of which there were 120 federally chartered units at the end of September; occupational, numbering 1,507; and residential, which accounted for the remaining 47. Of wider interest, however, is the breakdown of these figures.

Under "associational", the F.C.A. reports the existence of 28 cooperatives, 53 fraternal and professional credit unions, 28 religious, and 11 under the labor unions classification.

In the "occupational" division, the largest number of credit associations functioning with Federal charters are to be found under subheading "government", 203 being Federal, 71 local, and 36 state.

The petroleum industry, with 161; stores, with 122; and the educational group, with 112 (colleges 10 and schools 102) were other fields in which the credit unions had substantial representation.

LEADING STATES

BY states, Pennsylvania led with 228. New York came second with 201, California third with 128, and Texas fourth with 112. New Hampshire and Wisconsin had one each, and there was also a single credit union in Hawaii.

The division among occupations not mentioned above was as follows: amusements 5; automotive products 18; banking and insurance 28; beverages 4; chemicals and explosives 20; construction and materials 26; electric products 51; food products: bakery, grocery and produce 29, dairy 32, meat packing 35, others 13; furniture 6; glass 12; hardware 9; hotels and restaurants 29; laundries and cleaners 11, leather 10; machine (heavy) manufactures 31; metals: aluminum 16, iron and steel 57, other 14; paper 16; printing and publishing: newspapers 39, other 25; public utilities: heat, light and power 60, telegraph 13, telephone 24; rubber 11; textiles 25; tobacco products 1; transportation: aviation 11, bus and truck 14, railroads 66, other 6; miscellaneous 35.

Of the 47 credit unions classified as residential, 35 were rural community associations and 12 were located in urban districts.

Tariffs and Devaluation

THE effect shifting currency values have on international trade will be brought into unusual prominence in the next few months as the results of European gold bloc devaluations are registered.

The prospective situation can best be indicated, perhaps, by a concrete calculation. Take, for example, an article imported from the United States into France whose c.i.f. value French port was 1,000 francs and upon which the French tariff rate has been 40 per cent. Previous to the devaluation of the franc the cost to the French importer would have been 1,400 francs. France has devalued its currency, however, by approximately 30 per cent and has lowered most import duties by from 15 to 20 per cent. Lowering the value of the franc by 30 per cent means that it will take approximately 1,430 francs to buy the article, c.i.f. French port. Lowering the duty by 20 per cent results in an effective duty of 32 per cent which, applied to the 1,430 franc value of the goods, gives an import duty of 457 francs. Add this to the new cost of the goods and the total is 1,887 francs, or an effective import duty on the former value of the goods of 88.7 per cent—nearly two and a quarter times the original duty.

For the most part import duties in other countries of the former gold bloc are not as high as those in France, but the same principle applies to American exports to those countries and the practical effect of the devaluation of 24 to 41 per cent among these European nations is to shut out most American goods. Italy has devalued the lira by 41 per cent but has reduced duties on grains, meats and certain other food products by from 45 to 60 per cent, in other words, practically counteracting the devaluation so far as these products are concerned. On other products, however, Italy adheres to its policy of making the Italian people economically self-sufficient so far as possible, for military reasons.

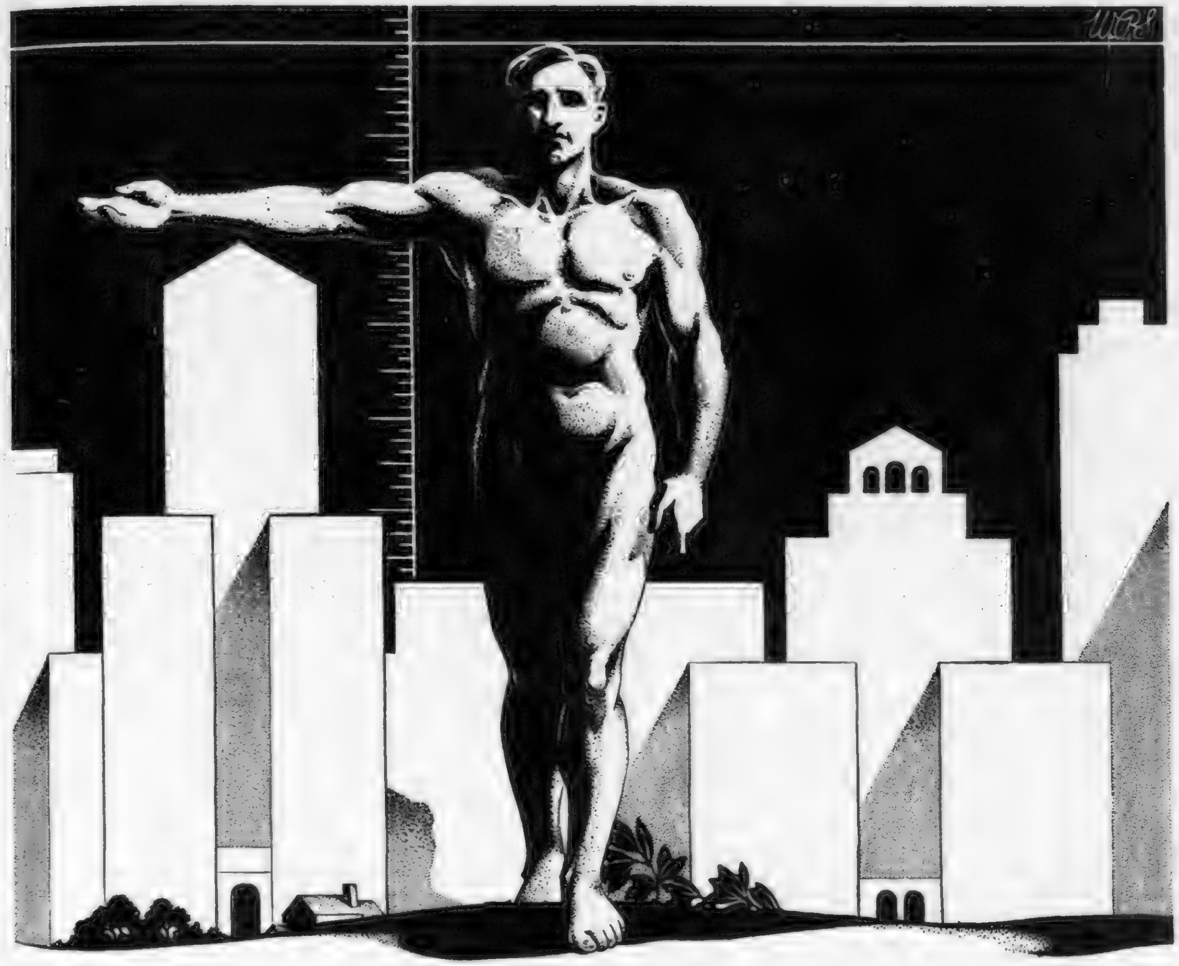
OUR EXPORTS SUFFER

ACCORDINGLY, until the import duties in the countries which have devalued their currencies are lowered in proportion to devaluation with some adjustment for the increased cost of imports in the lower value currencies the import trade of these countries will suffer. This is another way of saying that the export trade of the United States will suffer in the same degree.

On the other hand one may take, as an example, an article exported from France whose value at the French frontier is 1,000 francs of which 80 per cent represents French labor or raw materials produced in France and 20 per cent imported raw materials. The 800 francs of domestic labor or supplies, when translated into foreign values at the new exchange rates, will amount to 560 francs. The 200 francs of imported materials thus translated will come to 377 francs, the total of 937 francs thus lowering the international cost of the exported French product by 6.3 per cent.

This is an immediate advantage to the export trade of France or other countries devaluing to a similar degree, but, as a matter of fact, it usually takes only a short time until domestic living costs rise in some degree.

GEORGE E. ANDERSON



Credit Ratios Adapted to Banks

By E. S. WOOLLEY

FIGURES in themselves do not tell any story until they have been broken down and analyzed. They must be transferred into words in order that they may be properly understood. Credit men use eight principal percentages in analyzing business statements. These percentages are: (1) current assets to current liabilities; (2) quick assets to current liabilities; (3) net worth to debt; (4) capital to fixed assets; (5) sales to receivables; (6) sales to inventory; (7) sales to fixed assets; and (8) sales to total assets.

Each of these percentages tells its own story. They will, however, vary with different lines of business. For example, the correct ratio for current assets to current liabilities is usually accepted as being 2 to 1, but there are some businesses where this would not be true. Again the ratio of capital to fixed assets would be much lower for a road contractor than a wholesale grocery business. For this reason, comparisons are made between businesses of like nature and located within the same trading area.

If such a method of analysis has proved itself of value to the credit manager in controlling credits, which it has, why should it not prove of equal value to executives in controlling the affairs of the bank itself?

The answer, of course, is that it would. The same theory of percentages can be applied to banks, and it is being so applied by some banks at present. These percentages are: (1) deposits to quick assets; (2) total deposits to time deposits; (3) demand deposits to cash; (4) deposits to capital and surplus; (5) deposits to loans and discounts; (6) loans and discounts to investments; and (7) total assets to capital, surplus and undivided profits.

Again, however, in comparisons between banks, consideration must be given to the class of bank and the locality in which situated. The percentages would be quite different for a bank located in the financial district of New York City and one located in a small town in an agricultural state. Percentage comparisons, in order to be valuable, must be between the same type, and approximately the same size, banks. The reason for this is obvious. For example, a bank with a greater percentage of its deposits in demand deposits requires more cash than if the situation is reversed. Yet while the problems of large and small banks are somewhat different, the principle is equally good in each case.

As illustrative of this principle there is shown herein a table of comparisons of one bank with figures secured from banks in four different Federal Reserve districts. These banks are, however, all of the larger size, in which the ratio of total deposits to time deposits was an average of 8 to 1. In banks of this character the ratio of operating expenses, such as salaries, etc., will be higher and the ratio of interest paid to gross income or deposits will be lower than in banks in which the ratio of time deposits is greater.

The first percentage, deposits to quick assets, really means the liquidity of the bank and would include cash and exchanges, Government bonds and marketable securities. If a standard of 2 to 1 were taken for this ratio, then any point lower than 2 to 1 would mean that the bank was more liquid than the standard.

For example, if the total deposits of a bank were $2,000,000, the standard would call for cash, Government bonds and marketable securities of $1,000,000. If the bank had $1,200,000 of such assets, it would mean that the ratio was 1.2 to 1, as is the case with the bank in question. If it had only $800,000 the ratio would be 2.5 to 1.

However, the proper ratio for this item would depend upon the second item, because, if the demand deposits to time deposits were 1 to 4 instead of 8 to 1, the bank would not require as great a percentage of such deposits in quick assets.

The next ratio of demand deposits to cash showed an average for the total number of banks of 4 to 1. Where this ratio is less, it would mean that the bank was carrying more in cash than the average of its class. Where it is greater, it would be carrying less. Again, in a bank of $2,000,000 in total deposits, the ratio would call for $50,000 in cash; if the ratio were 3.6 instead of 4, it would have $61,200 in cash.

In the ratio of deposits to capital and surplus, the higher the ratio the less the margin. For example, on the average of the banks used in this survey, the ratio was 10 to 1. In the particular bank shown as a comparison with that average it was 9.4 to 1, showing that its margin of capital and surplus to deposits was higher than the average.

As a matter of fact, this ratio has been rather overemphasized in many quarters. No matter how low the ratio, that is, no matter how high the sum of capital and surplus is to deposits, the bank is still operating on a margin. It is quite possible for a bank to be unsound with a 2 to 1 ratio and sound with one of 20 to 1.

The average of the next ratio, that of deposits to loans and discounts, was 2 to 1. In the individual bank it was 3 to 1. This meant that the individual bank had less in loans and discounts than had the average. The next ratio of loans and discounts would naturally also be higher than the average, for the reason that, as the ratio of cash to deposits was higher and the ratio of loans and discounts lower, the ratio of loans and discounts to investments would be higher.

The last percentage, capital, surplus and undivided profits to total assets, will, naturally, vary with percentage No. 4.

INDIVIDUAL BANK RATIO	ITEM	AVERAGE RATIO
1.2 to 1	Deposits to Quick Assets	2 to 1
10.4 to 1	Demand Deposits to Time	8 to 1
3.6 to 1	Demand Deposits to Cash	4 to 1
9.4 to 1	Deposits to Capital and Surplus	10 to 1
3.0 to 1	Deposits to Loans and Discounts	2 to 1
2.2 to 1	Loans and Discounts to Investments	2 to 1
9.8 to 1	Total Assets to Capital, Surplus and Undivided Profits	10.5 to 1

15% TO 25% FASTER..

● *Actual size photo of Underwood Sundstrand keyboard. There are only 10 numeral keys to operate...all so compactly arranged that hand travel is reduced to a minimum.*

ANYONE can see the reason for Underwood Sundstrand speed. It's in the *condensed* keyboard...the ten numeral keys that are *operated* by the fingers of one hand...fingers that seldom travel more than an inch or two to depress a key.

Underwood Sundstrand speed is not theory. It is fact...proved by actual tests in business offices everywhere...tests that we'll make for you on your own work in your own office as soon as you say the word.

Underwood Sundstrand Machines add, subtract, multiply and divide. They not only do a complete figuring job 15% to 25% faster but they're easier on the operator. There's no barn door head-swinging between work and machine to cause fatigue or invite error. The operator keeps one hand on the keyboard. The other hand and her *mind* and *eyes* are on her work.

Telephone or write our nearest Branch for a complete demonstration in your own office.

For speed, accuracy, durability and simplicity, select the Underwood Sundstrand. There's a hand or electric model for every purpose, backed by nation-wide, company-owned service facilities.

Adding Machine Division
UNDERWOOD ELLIOTT FISHER COMPANY
Adding Machines...Typewriters
Accounting Machines
Carbon Paper, Ribbons and other Supplies
One Park Avenue, New York, N. Y.
Sales and Service Everywhere

UEF

Underwood Elliott Fisher Speeds the World's Business

UNDERWOOD SUNDSTRAND

ADDING-FIGURING MACHINES

10 NUMERAL KEYS - *that's all*

Cooperative Advertising

WHILE banking and advertising executives continue to debate the question whether a national cooperative educational advertising campaign would be more effective than separate ones conducted by state, city, clearinghouse or similar local banking groups, the Ohio Bankers Association has proceeded with a comprehensive public education campaign to foster goodwill and to tell the facts about banking.

In addition to furnishing material for use by bankers who address civic groups, luncheon clubs, high schcol classes, etc., the Ohio Bankers Association is now providing an advertising copy service primarily for the use of those banks which do not have their own advertising counsel. The association has emphasized that it is not in competition with advertising agencies serving financial clients. It believes its copy service will tend to increase the use of advertising agency service by banks because by stepping up the advertising standards and interest in banking, a greater volume of individual, personalized bank advertising should result.

Early this year the officers in charge of advertising of some of the largest banks in the state were drafted as a committee to write copy especially adapted to the needs and use of Ohio "country" banks. This committee, largely composed of officers and members of the Financial Advertisers Association in Ohio, wrote the copy in the members' respective offices and then met in Columbus to edit it. As a result, a year's supply of weekly copy was provided. This was set up by the association's central office. The size of each advertisement was 2 col x 5 inches, which was found to be the average size used by small banks. The copy is furnished free of charge by the association to its members and is sent out in batches of five to a clip sheet, mailed monthly. This is done so that the banker will not be overwhelmed with a year's supply at one time. Also, it gives the association an advertising contact and reminder each month. No mats or art work are offered because of the variety or lack of equipment in some of the small town publishing plants.

UNEXPECTED RESULT

AN interesting angle of merchandising was developed in connection with this copy. The clip sheets are also being furnished to the Ohio newspapers that are members of the Ohio Newspaper Association for their use in selling the banker on financial advertising. The publishers are enthusiastic, for it furnishes them with a copy service which they in turn can offer the banker who either has been misusing advertising or has not been using it at all.

And one of the unexpected results of this cooperation between publishers' and bankers' associations has been to stimulate an increase in the memberships of both groups.

Belford Atkinson, assistant secretary of the Ohio bankers' group, reports that many newspapers not now members of the publishers' association, have written in asking permission to use the clip service. He answers by saying that this service is available only to members of the newspaper association and, if the particular inquirer will join the association, he may have the use of the bank copy service.

New Customer — SOURCE UNKNOWN

RARE INDEED is the customer who comes in and opens an account with your Bank for a *single* reason.

Truthfully, he may say, "Recommended by a friend," "Convenience," or "Liked your advertising." But, if it were possible for you to trace all the factors behind each new customer's favorable attitude toward your institution, what would you find? Word-of-mouth and paid advertising, news of the Bank's activities, the appearance of the Bank building, and every check, every letterhead he has seen with the Bank's name — all have registered in his mind to make up the sum total of that favorable impression.

Banking relationships (and trust relationships to an even greater degree) are not a matter of "love at first sight." Building and *holding* good will is a long term proposition . . . one that is helped decidedly by distinctive stationery. Give *your* Bank the benefit of specialized knowledge and craftsmanship in stationery items that reach your customers — present and prospective.

THIS ADVERTISEMENT IS SPONSORED IN THE INTERESTS OF BETTER RELATIONS BETWEEN BANKS AND PUBLIC BY

IBS

THE INSTITUTE OF

BANK STATIONERS

120 WALL STREET, NEW YORK

The Real Estate Outlook

(CONTINUED FROM PAGE 19)

Realty is handicapped by high taxes but there is expectation that tax adjustments may be arranged in the near future which will greatly aid real property values. In St. Louis and Kansas City a rise in the demand for low priced homes is anticipated while rents show a tendency to harden and the outlook on the whole is considered favorable. Kansas City also reports a rise in farm values and an increase in the demand for farms.

Oklahoma City is one of the few localities which do not look for improvement in the real estate market in the near future. In nearly all of the central western states, however, farm values are improving and the off-take of farms this year is nearly half again as large as that in the same period a year ago. In Texas the situation is slowly improving. Houston reports that values were greatly inflated in 1929 but since the district depends very largely upon the oil industry which has held up well under the depression the real estate depression has not been felt there as keenly as in many other localities.

Ranging farther West, conditions in Denver are rather mixed. There is a good demand for houses and urban property generally and banks are carrying little real estate of this sort.

In San Francisco a rise of from 10 to 15 per cent in real estate values is expected within a year, due to satisfactory demand for property, especially residential, and to investment conditions. Money is hunting investment, current rates of interest on savings not being sufficient attraction to the average person while returns from real estate even under present conditions are such that a bank or institution can borrow at current rates, buy property and secure enough revenue to pay for the latter in the course of time. Large development projects, governmental and otherwise, are under way leading to much real estate activity and a demand for housing. There is considerable suburban development. In southern California there is similar activity.

In Portland and the Northwest generally real estate values are expected to be favorably affected by the completion of the Bonneville Dam and other Government projects and a consequent influx of new population. There is an especially strong demand for homes.

NON-INTERVENTION

Lord Plymouth is secretary of the International Non-Intervention Committee in London, storm center of Russian accusations that Italy and Germany aid Spain's Fascists

Building and Loan Convention

OPPOSITION to continuance of the Government guarantee of Federal Housing Administration debentures after the present provisions of the law expire next June 30 was expressed in a resolution adopted by the annual convention of the United States Building and Loan League, held last month in New York City.

The convention also opposed "continuation of centralized house-building and renting activities tending to make the Federal Government a perpetual landlord with cost greater than would be incurred in the conduct of these activities by private enterprise." The League recommended "drastic reduction of Government expenditures" and "realistic Government accounting of the type required of other institutions handling other people's money."

The League's committee on the F.H.A. found that the need for such an agency had passed, and said the extensive purchase of Title II mortgages by the R.F.C. was equivalent to direct Government lending.

"There are ample funds in every community about which this committee has any information," the report stated, "for all sound loans, and such virtually direct government financing operations as are involved in R.F.C. purchases of these mortgages are not needed to finance new construction. While emergency conditions once may have justified such operations, the emergency is definitely past."

The League's committee on home taxation pointed out that a thorough reorganization of Government units would save the taxpayers millions. The system of separate units—states, cities, towns, villages, boroughs, counties, etc.—each with its own taxing power, "has resulted in a tremendous increase in the cost of local government," the committee said.

Harold T. Donaldson, executive vice-president of the Union Building and Loan Association of Lansing, Michigan, was elected president of the League for the coming year. He succeeds Le Grand W. Pellett of Newburgh, New York. Edward C. Baltz of Washington, D. C., secretary of the Perpetual Building Association, and Clarence T. Rice, of Kansas City, Kansas, president of the Anchor Building Loan and Savings Association, were named as vice-presidents. H. T. Cellarius, Cincinnati, was elected secretary for the forty-first time.

NEW PRESIDENT

Harold T. Donaldson of Lansing, Michigan, is the new president of the United States Building and Loan League

PICTURES

Bank Payrolls in Nine States

A PAYROLL of approximately $238,000,000 was distributed among 115,253 employees of 4,640 banking institutions in nine eastern states last year.

These figures, obtained in the census of banking conducted by the Bureau of the Census, cover the New England and Middle Atlantic states where many of the country's large banks are located. The bureau prepared separate data for each geographical group.

In New York, New Jersey and Pennsylvania returns were obtained from 3,398 out of a total of 3,418 banks. These employed a total of 94,179 persons in 1935 and paid out $196,700,000 in salaries, an average of $2,089 per employee. In Maine, New Hampshire, Vermont, Massachusetts, Rhode Island and Connecticut, 1,242 banks out of 1,258 furnished reports, the number of their employees being 21,074 and their aggregate payroll $41,200,000. The average for each employee was $1,958.

Of the Middle Atlantic institutions, 2,293 were unit banks and 1,105 branch banks, a ratio of about two to one, and a percentage of 32.5 branch banks, distributed among 199 organizations, as shown in the following table.

LONDON

Sir George Broadbridge, newly elected Lord Mayor of London, will have a busy year because of the coming coronation ceremonies

STATE	BRANCH SYSTEMS	NUMBER OF OFFICES (INCLUDING MAIN OFFICES)
New Jersey....	52	171
New York.....	103	779
Pennsylvania..	44	155
Totals......	199	1,105

In this group of states the ratio of executives to other employees was approximately one to seven. Expressed in figures, the division was: 12,273 executives and salaried officers and 81,906 others, or 13 per cent and 87 per cent, respectively. Executives in unit banks constituted 21.6 per cent of the personnel, while for branch institutions this percentage was 7.4.

The average unit bank salary was $1,942; for executives the mean was $3,620 and for other employees $1,480. In branch banks the average compensation was $2,185—for executives $9,108 and for others $1,631.

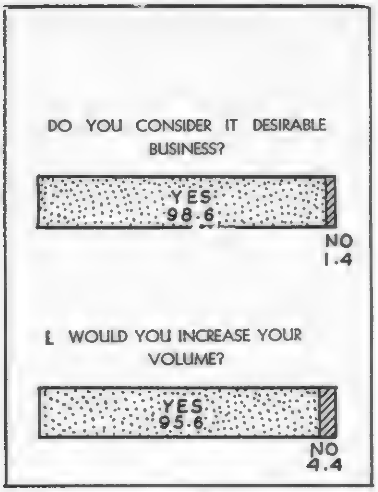
In the New England states the ratio of branch to unit banks was about one to two, there being 386 of the latter to 856 of the former. Branches constituted 31.1 per cent of the total. Their distribution is shown in this tabulation:

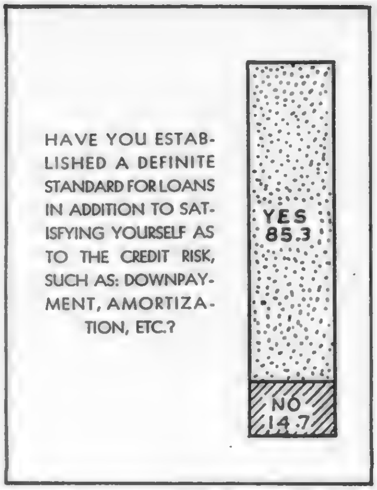
STATE	BRANCH SYSTEMS	NUMBER OF BRANCHES (INCLUDING MAIN OFFICES)
Connecticut...	5	15
Maine........	21	81
Massachusetts.	62	205
New Hampshire	2	4
Rhode Island..	13	59
Vermont......	8	22
Totals......	111	386

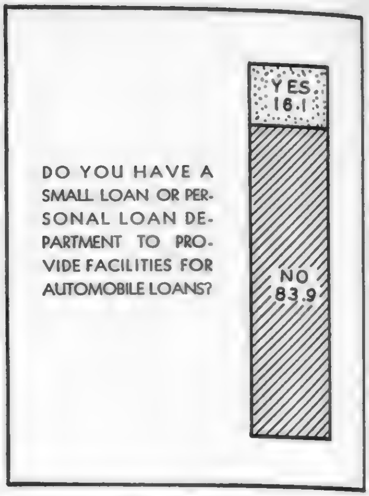
The number of executives and salaried officers among the 21,074 persons employed by the New England banking institutions was 4,091; there were 16,983 other employees, a ratio of approximately one to four, or 19 per cent executives. Executives constituted 23.5 per cent of all members of the personnel in unit banks, while in branch institutions this percentage was 13.2.

The average unit bank salary was $1,959. For executives the mean was $3,776 and for other employees $1,399. Branch banks paid an average salary of $1,958, executives averaging $5,464 and others $1,426.

Banks covered in the census tabulations included Federal Reserve institutions, national and state commercial banks, savings banks, trust companies, private banks, industrial and Morris Plan banks, and joint stock land banks. Separate reports are to be made on more specialized financial institutions such as building and loan associations, Federal savings and loan groups and investment banking institutions.







Automobile Loans

(CONTINUED FROM PAGE 31)

in the replies dealing with the standards for a loan and the careful credit underwriting. Of the bankers answering the questionnaire, 85.3 per cent said they had a definite standard for loans. Several judged each case on individual merit. Several bankers stated their terms to be: on new cars, 33½ per cent equity of purchaser, loan to be amortized in not more than 18 months; on used cars, 40 per cent equity, balance to be repaid within 12 months. Without a doubt, most of the loans were made very carefully.

How much of this business is secured by the various banks? On this point there is more difference than on any other. The largest city has by far the largest volume. From there on there is no pattern. A bank in a town of 8,300 made nearly as many loans as one in a city of 500,000. The largest volume per capita was made by a bank in a town of 2,000. This bank made two hundred such loans, or one for every ten people. The average number of loans is 130. Several banks in towns of less than 10,000 population made 500 loans each. To account for the ability of a banker in a town of 10,000 to get 500 such loans and explain why a banker in a town of 50,000 is able to secure only ten loans is impossible without a more complete analysis.

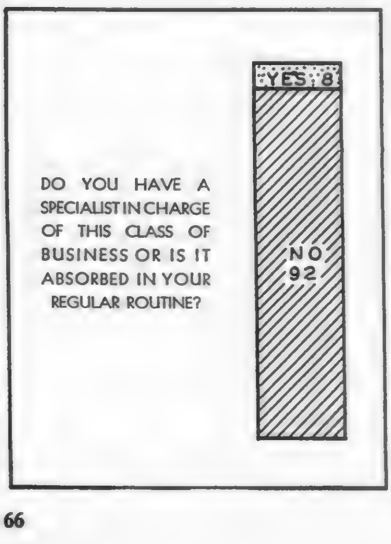
There are two schools of thought as to the proper source of this business. One contends that these loans should be made direct with the purchaser. The other feels that dealer paper should be discounted. Both are well represented, for 26.2 per cent of the banks answering the questionnaire make direct loans only; 23.8 per cent discount dealer paper only; 50 per cent will accept direct loans and discount from a dealer.

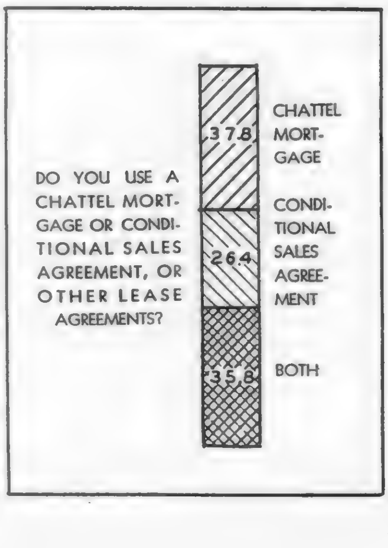
Those banks making loans direct secured about half as much business on the average, but the more careful underwriting of the credit risk is indicated by a lower repossession ratio.

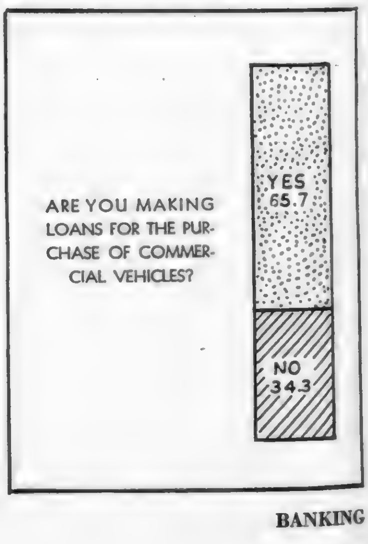
Nearly half the bankers (45.9 per cent) said that they were confining their activities to new car loans primarily, while 54.1 per cent said that they would lend on both new and used, although several qualified the used car acceptance by a limitation to models not more than one, two or three years old.

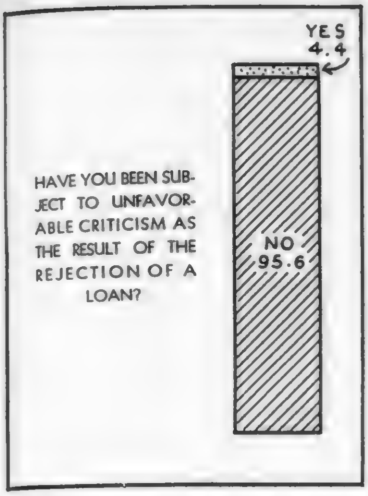
Many bankers when discussing the general idea of automobile loans felt that this was a specialized business. The survey indicated that only 16.1 per cent of the banks have small loan departments. Several banks included in the remaining 83.9 per cent, who do not now have small loan departments, indicated that they were interested in the subject and were considering the establishment of such departments.

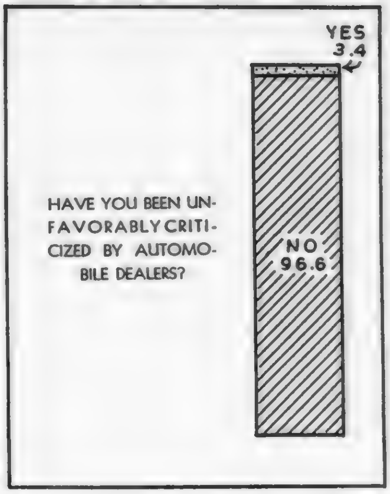
Few banks, if any, found it necessary to employ a specialist to look after the loans; 8 per cent of the replies indicated











that a certain individual was responsible. Usually this was the cashier or an officer of the bank who had made a study of the subject and accepted responsibility for the proper handling of the loans.

An even larger percentage of the banks took these loans in stride, running the detail through the regular routine. In 91.4 per cent of the replies it was disclosed that these loans were absorbed in regular routine.

The mortgage documents used also offered a decided divergence of opinion —37.8 per cent of the bankers use a chattel mortgage; 26.4 per cent use the conditional sales agreement; 35.8 per cent use both chattel mortgage and conditional sales agreement, depending on the circumstances. Reference was made to "title notes" in one case and several replies said "other lease agreements".

Loans for commercial cars were not made by 34.3 per cent of the bankers. 65.7 per cent said they would lend money on trucks. Several indicated that they scrutinized these loans more carefully than the others, confining them to local merchants and business men.

Many bankers have formerly expressed concern over the possible adverse criticism which might be directed their way as the result of the rejection of an individual loan, but 95.6 per cent of those answering the questionnaire said they had not been criticized, while 4.4 per cent said "Yes". One banker enlarged on this point, saying: "No, it would not make any difference if we were". Another, "Not that we care about". The accumulated evidence is conclusive here—there is little or no criticism. On all loans, whether automobile or commercial, the bank accepts or rejects as it sees fit.

Surprisingly enough, few dealers have criticized the banks. In many replies there was evidence of wholehearted cooperation. Only 3.4 per cent of the replies said they had been criticized by local dealers. One banker said in answer, "Praised." Another, "No; dealers have sent people to us." A third, "Not at all; they seem to like local facilities." A few have found dealers unwilling to cooperate, for one reason or another.

Since most replies showed a desire to get more of the business the question dealing with publicity used should be of value.

Nearly half, or 51.1 per cent, said that they used no publicity. The largest affirmative group was confining its efforts to personal solicitation, while 16.3 per cent were taking space for newspaper advertising and 8.3 per cent were using a lobby card. A number found circulars of value as envelope stuffers and for counter display. Two used billboards; one direct mail. One bank used the radio.

Since, in the past, these loans were handled chiefly by the finance companies, it would seem necessary for the banks to tell their customers, actual and potential, of this additional facility now available locally. Otherwise the public will not think of the bank when desiring such a loan.

Many bankers, however, started out in an experimental manner and did not wish to attract too much attention until a final decision as to the desirability of these small loans could be made. The almost universal opinion shown by this cross-section is that the loans are desirable and that the individual bank would like to get more of them. More should come normally as word of mouth advertising, satisfied customer relationship and aggressive solicitation of loans begin to advertise the subject.

Dying Embers

The Commercial Banking Outlook

(CONTINUED FROM PAGE 43)

If this is the reason for the increase in loans it justifies hopes that further increases in the outputs of durable goods will result in still more commercial loans. Nevertheless, it does not explain why loan increases generally have been so small, and why they have not appeared in greater degree in other parts of the country.

Probably there are two chief reasons for the declines in the absolute and relative volumes of commercial loans. The first is that during the long prosperity period before the depression great numbers of business enterprises were able to build up corporate surpluses, and to replace bond issues by selling stock, so that they largely relieved themselves from dependence on the banks for financing their seasonal requirements. The progress of this process was made evident by the great shrinkage in the volume of commercial paper available in the financial markets.

The second reason for the failure of the volume of commercial loans to increase comparably with the advance in business recovery is to be found in the indirect effects of the long continued deficit financing of the Federal Government. As the administration has floated bond issues and expended the proceeds, the money resulting from them has flowed rapidly through business channels, and found lodgment in the banks in the form of demand deposits. The banks now hold great quantities of the Federal securities, and these account for the huge increases in the figures of bank investments. The banks also hold record-breaking amounts of demand deposits, and in considerable degree these are credited to the deposit accounts of business enterprises. As a result, such corporations are not actively seeking commercial loans.

Another factor tending to curtail the volume of commercial borrowing has been the reduction of the time element in the movement of merchandise through more rapid railroad and motorized transportation, thereby reducing the total volume of credit required to finance the nation's current business.

Two general conclusions seem justified. The first is that it appears probable that for a long time to come the proportion of the earning assets of commercial banks that will normally be invested in securities rather than in loans will continue to be much higher than it used to be before the depression. The second conclusion is that while the volume of commercial loans will surely increase as business recovery advances, it seems unlikely that our banks as a whole will soon be able to return to their old practice of having about one-half of their earning assets in commercial loans.

The Economic Policy Commission does not view these prospects with apprehension, but it does deem them important. If the developments of banking over the next few years are to be of the sorts indicated, they call for thoughtful modifications of banking policies. They appear to indicate that American banking has entered upon a period of considerable duration in which the expenses of bank operating will need to be readjusted to conform to the changed income producing power of the earning assets.

It would not be true to say of American banks that in the words of the old song, they are all dressed up but have no place to go. It would, however, appear to be true that they are all prepared to go where they used to go, and

that it is not now possible for them to go there, nor does it seem likely that it will be possible in the near future. Their main activity used to be the financing of the fluctuating current needs of American business through the making of commercial loans. They are now equipped to do it on a far larger scale than they are doing it at present. They should now devote more attention than they have heretofore to the problems of the wise and prudent handling of their investment accounts, in the realization that these problems are not only of the first importance, but also that they are not merely temporary problems.

Profit Protection

A NATIONWIDE campaign for constructive credit development is being organized by the National Association of Credit Men, which has a membership of 20,000 in 122 local affiliated associations distributed throughout 45 states.

The slogan for the drive is "Guard the Nation's Profits!" The sole purpose of the program, according to Edward Pilsbury of New Orleans, president of the association, is "to increase profits by reducing losses."

Outlining the need for such a campaign Mr. Pilsbury enumerated several activities designed to accomplish the purpose.

The program, he said, "calls specifically for more intensive vigilance in defending American business from unsound credit legislation and greater promotional effort to bring about new credit legislation in defense of the nation's receivables."

There is also to be an expanded educational program organized nationally through the National Institute of Credit, and a greater development of the association's direct service activities, namely, the credit interchange system and the adjustment and collection bureaus.

The committee of credit men in charge of the program includes: E. C. Gayman, San Francisco; A. W. Groth, vice-president, The First National Bank of Portland, Oregon; F. J. Hamerin, Indianapolis; G. P. Horn, Omaha; Charles Johnston, Pittsburgh; G. H. Johnstone, Chicago; E. I. Kilcup, Providence, Rhode Island; E. E. Ogden, New Britain, Connecticut; Robert Peel, Salt Lake City; Mr. Pilsbury; W. H. Pouch, New York; Fred Roth, Cleveland; and S. J. Schneider, Louisville.

MORE AT WORK

John W. O'Leary headed a U. S. Chamber of Commerce committee which reported that 7,000,000 more workers are now employed than at the depression's low point

HARRIS & EWING

Statement of Ownership

¶STATEMENT OF THE OWNERSHIP, MANAGEMENT, CIRCULATION, ETC., REQUIRED BY THE ACTS OF CONGRESS OF AUGUST 24, 1912, AND MARCH 3, 1933, of BANKING, published monthly at New York, N. Y., for Oct. 1, 1936.

¶State of New York, county of New York, ss. Before me, a Notary in and for the State and county aforesaid, personally appeared L. E. Lascelle, who, having been duly sworn according to law, deposes and says that he is the Business Manager of BANKING and that the following is, to the best of his knowledge and belief, a true statement of the ownership, management (and if a daily paper, the circulation), etc., of the aforesaid publication for the date shown in the above caption, required by the Act of August 24, 1912, as amended by the Act of March 3, 1933, embodied in section 537, Postal Laws and Regulations, printed on the reverse of this form, to wit:

¶1. That the names and addresses of the publisher, editor, managing editor, and business managers are: Publisher, F. N. Shepherd, 22 East 40th Street, New York, N. Y.; editor, F. N. Shepherd, 22 East 40th Street, New York, N. Y.; managing editor, William R. Kuhns, 22 East 40th Street, New York, N. Y.; Business Manager, L. E. Lascelle, 22 East 40th Street, New York, N. Y.

¶2. That the owner is: (If owned by a corporation, its name and address must be stated and also immediately thereunder the names and addresses of stockholders owning or holding one per cent or more of total amount of stock. If not owned by a corporation, the names and addresses of the individual owners must be given. If owned by a firm, company, or other unincorporated concern, its name and address, as well as those of each individual member, must be given.) The American Bankers Association, 22 East 40th Street, New York, N. Y. (A voluntary unincorporated association of banks: Tom K. Smith, Boatmen's National Bank, St. Louis, Mo., President and F. N. Shepherd, 22 East 40th Street, New York, N. Y., Executive Manager.)

¶3. That the known bondholders, mortgagees, and other security holders owning or holding 1 per cent or more of total amount of bonds, mortgages, or other securities are: None.

¶4. That the two paragraphs next above, giving the names of the owners, stockholders, and security holders, if any, contain not only the list of stockholders and security holders as they appear upon the books of the company but also, in cases where the stockholder or security holder appears upon the books of the company as trustee or in any other fiduciary relation, the name of the person or corporation for whom such trustee is acting, is given; also that the said two paragraphs contain statements embracing affiant's full knowledge and belief as to the circumstances and conditions under which stockholders and security holders who do not appear upon the books of the company as trustees, hold stock and securities in a capacity other than that of a bona fide owner; and this affiant has no reason to believe that any other person, association, or corporation has any interest direct or indirect in the said stock, bonds, or other securities than as so stated by him.

¶5. That the average number of copies of each issue of this publication sold or distributed, through the mails or otherwise, to paid subscribers during the twelve months preceding the date shown above is.—(This information is required from daily publications only.)

L. E. LASCELLE,
Business Manager.

¶Sworn to and subscribed before me this 25th day of September, 1936.
¶Elizabeth Rautanen, Notary Public, Bronx County, New York Co. Clk's No. 336, Reg. No. 8R188; Bronx Co. Clk's No. 19, Reg. No. 50R38. Certificate filed in Westchester County.
¶(My appointment expires March 30, 1938.)

Do your Directors Know of BANKING'S Group Subscription Plan?

"Program" Advertising

THE New York Financial Advertisers Association, representing banks and investment firms in the metropolis, has recommended that its members abstain from using so-called "program" advertising.

The recommendation, adopted in the form of a resolution at a recent meeting of the association, represents an effort by the group to increase the effectiveness of advertising expenditures "by preventing waste through the use of such advertising media as must base their appeal on religion, politics, charity, personal affiliations" and similar considerations.

Listed in the resolution were the following "irregular" channels or types of advertising:

All programs covering any noncommercial event or entertainment; all publications, except recognized commercial media, which may be classified as undergraduate, religious, political, club, fraternal organization, etc.; house organs, other than the advertiser's own; directories in which the listing must be purchased; advertisements congratulating others on birthdays, opening of new buildings, and similar events; donations of advertising space; any form of advertising or publicity to be paid for or contingent upon purchase of copies of publication (i.e., "puff sheets"); the purchase of tickets in lieu of the purchase of advertising space; all periodicals published at irregular intervals and not entered in the post office as second-class matter.

The resolution stated that it did not refer to the use of such "legitimate media" as: all periodicals, members of the Audit Bureau of Circulations, and recognized periodicals over a year old; all legitimate banking periodicals; legitimate theater, opera and concert programs; radio; car cards; billboards, posters, etc.; advertisers' own house organs; direct mail, own booklets, folders, etc.; periodicals more than a year old not mentioned in the preceding list.

"Program advertising" is a problem of long standing. Numerous means of meeting it have been tried by business men, usually with considerable success when cooperative methods are used. Chambers of commerce or trade associations in many cities have agreements against patronizing "irregular" channels, and some banking groups have found cooperative effort effective.

THE "COMPTOMETER" WAY OF

proving deposits

REDUCES TIME, COST, AND ERRORS

THE "COMPTOMETER" method combines speed and ease of operation with remarkable accuracy . . . cuts expenses in handling the proving of deposits or other banking figure work.

It has proved its value in general analysis work in all its phases. By offering dependable proof of accuracy, and by eliminating time and trouble spent in checking through the various distributions for errors, "Comptometers" have won high favor in banking management circles.

Each of the "Comptometers" illustrated—the Standard Model J and the New Electric Model K—is a good machine. Each is unsurpassed in its type.

A "Comptometer" representative will welcome the privilege of demonstrating either or both of these machines in your own office. Telephone the "Comptometer" office in your locality, or write direct to Felt & Tarrant Manufacturing Company, 1711 N. Paulina Street, Chicago, Illinois.

THERE IS NO FASTER WAY OF PROVING THAN WITH "COMPTOMETERS"

THE STANDARD MODEL J

THE NEW MODEL K ELECTRIC

COMPTOMETER

Reg. U. S. Pat. Off.

"We'll Use Cream Color"

"I'M looking," said the savings bank's visitor, "for your real estate department."

The man at the roll-top desk laid aside a paint manufacturer's color chart, open at the cream-to-tan page.

"And you've found it," he laughed. "It's talking to you now. Have a seat. What can we do for you?"

The caller edged himself on to a bench which he shared with small cans of varnish, swatches of floor covering, wall paper sample books, and sundry other tools and materials of the building trade.

"Well," he said, "you certainly have things centralized!"

The personification of realty grinned.

"Yes," he agreed. "Our real estate department pretty well boils down to me. I'm manager, architect, appraiser, interior decorator, counsellor and general expert. When you came up I was picking out the paint for a little modernization job we've got to do on a house we just took over. Can I help you?"

The visitor explained that he was interested in the operation of bank real estate departments, and wondered whether this one had time to talk about its—or his—work. How long ago was it formed? How did it function? What was it doing with the bank's properties? There were other questions, too, if there was time.

"It's not much of a story," said the real estate department, "but let's begin at the beginning.

"Up to 1930 this bank had never had serious difficulty with real estate. It had gone through several depressions and been obliged to make run of the mill foreclosures, but things always worked out smoothly and there wasn't even the suggestion of an emergency. Thousands of other banks had the same experience.

"Three or four years ago trouble began to pile up. Everybody knows what happened; and nearly everybody, too, was wondering what to do about it. The officers of this bank found themselves up to their necks in real estate which neither they nor anybody else wanted. What should they do with it?

"Well, the man then responsible for the bank's real estate affairs was a

LEFT

While Madrid was being attacked, the Spanish government found time to appoint Francisco de los Rios its ambassador to the United States

WIDE WORLD

clerk in the mortgage department. He got along swimmingly in normal times, but when the crash came the work was far too heavy for him to handle.

"I'd been in the realty business in this town for some 20 years and knew a little bit about property management and all that goes with it. One day the bank asked me if I'd come over and lend a hand. I agreed. That was three years ago and I've been here ever since.

"What did I do? Well, I took over the management of every piece of distressed property the bank had. I inspected each one, decided whether it was worth fixing up, and if so, to what extent. I tried to find buyers for parcels the bank wanted to sell, and tenants for properties it wanted to rent. I'm still doing it. So is every other man who has a job like mine.

"In case you're interested in details, I can mention a few things that have been helpful here. I do my own managing. I supervise all our renovation and modernization jobs. Of course I knew something about materials and workmanship, and I decided to do my own buying and contract letting.

"Every can of paint that's used on one of our houses is bought by this department, and every reconditioning job goes to the lowest bidders. We get at least three estimates on every contract. I buy the paint because I want to be sure that the lead and oil are as they should be; if you leave 'em to a painter, sometimes—well, it's easy to be careless and let the stuff thin out until it doesn't give satisfactory results.

"I buy all our gas stoves, electric refrigerators, hall carpeting and other interior improvements. The dealers here in town want my business and they're willing to make their prices right. I get the best discounts, naturally, on volume orders. (I might mention that 'volume' over this way is five ice-boxes or stoves, although we get something off on single items.)

"The supervision of all these jobs has taken a lot of time, but we manage to squeeze in other work that may interest you. We're making personal inspections of property on which we hold mortgages to be sure that it is being maintained in the best interests of the bank and the owner. It's slow work, and so far I've been able to cover only part of the ground."

The real estate department excused itself. It had to go up the street to make an appraisal.

"What about that paint job you were working on when I came in?" asked the visitor.

"Oh," replied the department, "I got that all figured out in my head while we were talking. We'll use cream color, and I'll ask for the bids this afternoon."

RIGHT

A significant diplomatic event was the arrival of Italy's new ambassador to the United States, Fulvio Suvich, former Undersecretary of Foreign Affairs

WIDE WORLD

Award for Bank Women

AS a result of action taken at its recent convention in San Francisco, the Association of Bank Women announces the establishment of an annual award to commemorate the services rendered to women in banking by Miss Jean Arnot Reid of New York.

The award is to be given each year to a woman graduate of the American Institute of Banking who is selected as best fitted "through the integrity of her character and the efficiency of her work" to represent women in the profession of banking. For the year 1936–1937 it will be made in the association's Mid-Atlantic Division, comprising the states of New York, New Jersey, Pennsylvania, Delaware, Maryland, Virginia, West Virginia and the District of Columbia. Subsequently the award will be rotated annually among the eight geographical sections into which the organization is divided.

Miss Reid, until recently an officer of the Bankers Trust Company, New York City, was one of the five women who met in the Spring of 1921 to found the Association of Bank Women. She was its first treasurer, from 1921–1923; served as vice-president, 1924–1926, as president, 1926–1928, and as general chairman of the association's first three annual conventions.

In April of this year Miss Reid was honored by being chosen as the "career woman" to represent banking at the tribute dinner to women of achievement given by the League of Business and Professional Women in the metropolitan district of New York.

Mortgage Bankers

OPPOSITION to continued operation of such Government lending agencies as the F.H.A., H.O.L.C., and the farm loan banks, in competition with private capital, was expressed by the Mortgage Bankers Association of America at its annual convention at Memphis, Tennessee, last month.

"The emergency has passed," said a resolution. "Ample private capital is available to finance sound credits at low rates and it is uneconomic to use Government credit for financing private business. The Federal Government, after July 1, 1937, should discontinue the issuance of bonds to finance farm mortgages."

James W. Collins, president of the Tracy Loan and Trust Company, Salt Lake City, was elected president of the association to succeed L. A. McLean of Louisville, Kentucky. Vice-presidents for the coming year include Frank C. Evans, Crawfordsville, Indiana; Dean R. Hill, Buffalo; and F. C. Waples, Cedar Rapids, Iowa.

Members of the board of governors chosen at the convention were: J. C. Bartha, St. Paul; G. C. Bowie, Washington; Arthur M. Hurd, New York City; C. W. Kistler, Miami; Byron T. Shutz, Kansas City; Frederick P. Champ, Logan, Utah; and Roy S. Johnson, Newkirk, Oklahoma.

280-Year-Old Central Bank

THE 280th anniversary of the founding of the bank which eventually became the State Bank of Sweden (Riksbank) comes on November 30.

It was on that day in 1656 that one John Palmstruch, a Dutch business man, and a group of associates obtained the charter for a bank to be established in Stockholm. They called their enterprise the Palmstruchska Bank, modeling it along the lines of banks in Amsterdam and Hamburg.

Five years later the Palmstruchska made history by issuing bank notes, thus becoming the first European bank to use credit money bills not fully covered by metallic reserves. Unfortunately for Palmstruch and company, however, the notes appeared in a volume that exceeded the liquid assets of the enterprise and the bank became insolvent.

In 1668 it was reorganized as a state institution, with the name "Estates of the Realm Bank". As thus constituted it could not issue notes, but carried on a large commercial banking business with the public for many generations.

Around the turn of the last century it was made, by law, the sole bank of issue in Sweden, assuming the character and functions of a true central bank in the modern sense. The Riksbank then virtually ceased to operate as a commerrial bank, and although it can still ceceive money on deposit and grant loans to private persons and undertakings, its chief activities are those of a central banking institution.

POWER

Wendell L. Wilkie, president of Commonwealth & Southern Corp., was one power official who attended the recent White House conference on utility matters

HARRIS & EWING

Security Selling

THE recently formed Investment Bankers Conference, Inc., successor to the Investment Bankers Conference Committee, has chosen the officers of its governing body and is proceeding with organization plans in the 14 administrative districts into which the country has been divided.

The aim of the Conference is the ultimate development of self-regulation in the securities business. It will seek to promote sound trade practices, and cooperate with the S.E.C.

B. Howell Griswold, Jr., of Baltimore, was made chairman of the Conference governing committee. In addition the committee will include Francis A. Bonner, Chicago, vice-chairman; Sydney P. Clark, Philadelphia, treasurer; Wallace H. Fulton, San Francisco, director; and Frank L. Scheffey, New York, co-director.

Thrift Talk in Shorthand

WHEN you want to sell a Chinaman, talk Chinese. When you want to sell more Christmas savings accounts, and bring stenographers into your bank, talk to them in shorthand.

That is exactly what one bank did last year—printed a whole advertisement in shorthand, in two columns by 150 lines, and it was highly successful. The advertisement in the newspaper was clipped and pasted on a card and posted at different places in the bank.

The ad was first written in long hand and then taken to a nearby business college, where it was transcribed into shorthand. A cut was then made of the whole ad. The response which followed was exceptionally good.

"This advertisement occasioned much favorable comment," explained the cashier. "A number of stenographers called in about the transcription and there were many interesting remarks made about it. Many mothers and fathers, seeing this ad, and having a daughter or even a son who wrote shorthand, called attention to the advertising and wanted to know what it was all about.

"As a result we opened many more Christmas savings accounts than in former years. We desired something out of the ordinary to attract attention, and it did. We thought we could reach a particular class of depositors in this manner, and it was to reach all stenographers with the idea of opening up a savings account that the ad was written.

"Shorthand outlines are very interesting to any one who has studied them, and this class of buyers will read such an advertisement, while if written in long hand or printed in the usual manner it might have had only cursory attention and the usual appeal. Being in shorthand, however, this type of advertising had an *unusual* appeal and was read. The copy read at the top in large bold face type: 'A Christmas Message for Busy Stenographers'."

The element of curiosity is aroused in people by something they can't read. This would seem to be a means of catching the eye and so the attention of one group of depositors at Christmas time. Those who can't read it would certainly have their curiosity piqued.

FRED E. KUNKEL

KILOWATTAGE

Powell Crosley, Jr., of Crosley Radio Corp., defended the use of high-powered broadcasting stations before the Federal Communications Commission

New Books

The Trust Field

The American System of Trust Business. By Gilbert T. Stephenson. Trust Division, American Bankers Association, 1936. 128 pages. $1.50.

Mr. Stephenson's book on the trust field, in which he has long been nationally prominent, offers a compact description of the work of trust departments. It is intended for the layman—that is, the person who is not actively engaged in this specialized banking service.

"Its purpose," says a foreword by Merrel P. Callaway, former President of the Trust Division, "is to present in untechnical language a brief outline of the American system of trust business for the information both of officers and employees of banks and trust companies—particularly in other departments than the trust department—and of all persons who are interested in obtaining a general idea of the services rendered by trust institutions.

"It is believed that the book will be of special value to the members of the boards of directors of trust institutions who desire a working knowledge of a field of activity which constitutes one of their important responsibilities."

Mr. Stephenson, who is vice-president of the Equitable Trust Company of Wilmington, Delaware, and who frequently contributes to Banking, covers trust services, wills and estates, personal trusteeships and guardianships, personal agencies, corporate and institutional trusteeships and agencies, management of trust investments, safeguards for trust property, the basic principles of trust business, and the influence of the trust institution in the community.

Two Extraordinary Decades

The Reserve Banks and the Money Market. By W. Randolph Burgess. Harper & Brothers, 1936. 342 pages. $3.

Bankers and non-bankers alike will welcome this revised edition of a book which, upon its original publication in 1927, quickly found a permanent place with the standard literature on American banking.

The present volume, representing a virtual re-writing of the old text in the light of recent changes and of Reserve experience during two major financial crises, strengthens the reputation of its predecessor as an outstanding work in its field. Some of the new material, readers of Banking will recall, first appeared in this magazine, under Dr. Burgess' signature, earlier this year.

The author is vice-president of the Federal Reserve Bank of New York, and for two decades—almost the span of the System's existence—he has been in close touch with Reserve practices and policies. His book is an authentic exposition of the development of Reserve practices during the past 21 years, the last few of which have witnessed so many changes affecting our banks of issue. The viewpoint, naturally, is that of the Reserve bank located in the nation's chief money market.

As in the first edition, Dr. Burgess lucidly explains the System's intricate operations, giving a clear, comprehensive picture of the services it performs. Of particular interest is his discussion

of major policy problems of the Reserve institutions during the two periods of severe credit expansion and contraction the System has faced thus far. Both intervals, Dr. Burgess maintains, were largely results of the World War, which brought consequences that no bank of issue could wholly have forestalled, and the course of events served to emphasize the limitations on the powers of such institutions "in the face of major economic changes influencing the demand for credit."

Dr. Burgess' review of the 20 years leads him to point out that the old disorder of world economic and monetary instability, which has poured huge amounts of gold into the United States, is with us again. The cure is the reestablishment of international economic and monetary order; the problem of what to do with the gold this country now has and with future importations, so as to avoid a gold inflation, is "likely to put to the full test all the ingenuity and wisdom of those who are responsible." The Reserve System now has several important means of credit control, but the wise use of these powers is more important than their number.

"The problem is, however," says the author, "not solely related to the supply of credit or to the control of abuses in the use of credit in the stock market or other particular directions. It involves changes in the demand for credit which arise as a composite result of all the nation's economic policies and activities—both governmental and private. Most important of all is the changing temper of the people and their capacity to learn from two decades of extraordinary experience."

Account Analysis

ANALYZING CHECKING ACCOUNTS SCIENTIFICALLY. By Frederick W. Hetzel. Bankers Publishing Company, Cambridge, Massachusetts, 1936. 111 pages. $3.50.

Establishing a satisfactory relationship between the bank and its commercial depositors really resolves itself down to the banker's being able to stipulate a fair price for the services he renders and his ability to obtain that price from his customers. If service charges are to be permanent they must be fair to depositors and must be figured on a scientific basis. These are the principles on which Mr. Hetzel bases account analysis.

His book explains how accounts should be analyzed and how service charges should be imposed to retain good will and eliminate sources of irritation and bad feeling.

The "analastic method" is the name which has been used as a distinguishing designation for this particular method of account analysis. Detailed description is given of the various steps in analysis and of the scientific approach to the handling of each step through the use of elaborate tables. These tables show how to determine the balance required to support a given amount of expense, a given number of items, and a given amount of float and produce a profit. They also show how to determine the amount of charge required to rectify an account with deficient balances, and the amount of credit that could be allowed to accounts maintaining balances in excess of requirements.

Various means of expediting the work of analysis are discussed. The author maintains that *all* accounts should be analyzed because he feels that if only certain accounts are selected for analysis, and if the selection is conscientiously done the time of so doing will be as great as will be the time needed to make complete analyses of all accounts. Furthermore, selection would require the attention of higher priced officer personnel that could be more profitably employed otherwise.

Most discussions of account analysis deal with the *unprofitable* account and means to be taken to place it on a profitable basis. The other side of this question—which the reviewer has not seen discussed at any length heretofore—is that of rewarding the profitable account which shows earnings in excess of the amount necessary to carry the account and provide a reasonable profit to the bank. The author discusses this particular phase of account analysis in an interesting manner.

MELVIN C. MILLER

Business Insurance Trusts

THE ABC OF BUSINESS INSURANCE TRUSTS. By Basil S. Collins. Bruce Humphries, Inc. Boston, 1936. 111 pages. $2.

The author of this interesting and informative little book is assistant vice-president of the Old Colony Trust Company, Boston. He is an authority in the field of wills and trusts in their relation to life insurance.

Mr. Collins' volume will be of value to the trust officer, the life underwriter, the attorney and the accountant. It presents concisely the principles of business life insurance and business life insurance trusts, and the basic fundamentals of the relationships between the trust officer and the life underwriter.

The author uses the case method in offering a practical sales plan for the underwriter and trust officer, covering corporations, partnerships and proprietorships. He suggests two specimen deeds of trust, one covering the average close corporation case, the other, the average partnership.

Bank Management Bulletin

The Bank Management Commission of the American Bankers Association has issued in bulletin form the proceedings of the Seventh Annual Clearinghouse Round Table Conference at the recent Convention of the Association in San Francisco.

The topics presented at this year's meeting were: "Practical Bank Operation," P. D. Houston, chairman of the Board, American National Bank, Nashville; "Security Policies," J. Harvie Wilkinson, Jr., vice-president, State-Planters Bank and Trust Company, Richmond; "Loan Policies and Personal Income Loans," E. A. Mattison, vice-president, Bank of America N. T. & S. A., San Francisco; "Account Analysis and Rates for Banking Services," J. M. Sorensen, vice-president, Stephens National Bank, Fremont, Nebraska; "Interest Expense Control," E. V. Krick, vice-president, American Trust Company, San Francisco; "Modern Mechanical Equipment as a Factor in Operating Efficiency and Economy," Darrel G. Ensign, assistant cashier, Utah State National Bank, Salt Lake City; and "Economies in Buying Supplies," William C. Tompkins, auditor, First National Bank, St. Louis.

The bulletin has been sent to each member of the Association, and further copies can be obtained from the Commission office in New York City, at 25 cents each.

Advice

ON GOING INTO BUSINESS. By John C. Baker, William D. Kennedy, Deane W. Malott. McGraw-Hill Book Company, 1936. 233 pages. $2.

The authors tell how to get a position commensurate with one's ability, and offer some very worth-while advice to the educated young man seeking a business career. The approach is through example more than precept. Mr. Baker is associate director of research, Graduate School of Business Administration, Harvard University; Mr. Malott is associate professor of business at the same institution; and Mr. Kennedy is account executive with the J. Walter Thompson Advertising Corporation.

For Attorneys

1936 AMENDMENTS AFFECTING WILLS, TRUSTS AND ESTATES IN NEW YORK. Published by The New York Trust Company, 1936. 149 pages.

This compilation of the annual statutory amendments to the New York State law, passed by the 1936 session of the legislature, is for the use of attorneys, who will find it a helpful, convenient reference. In addition to the amendments, the text also presents emergency mortgage legislation enacted by the legislature, and excerpts from the recommendations of the state Mortgage Commission as to proposed legislation.

The Banking Holiday

PRELUDE TO PANIC. By Lawrence Sullivan. Statesman Press, Washington, D.C., 1936. 126 pages. $3.

Mr. Sullivan's aim is to give historical pattern to the banking holiday of 1933. The author, a veteran journalist writing from the vantage point of Washington, chronologically surveys events in American economics and politics between the Summer of 1932 and Inauguration Day, 1933.

His digest of voluminous material constitutes a day to day—even hour to hour—account of happenings during the critical period preceding the national moratorium. It is supplemented with personal notes and diary entries concerning the White House and Treasury conferences of January to March, 1933.